AN INTRODUCTION to the THREE VOLUMES of KARL MARX’S CAPITAL

Michael Heinrich

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An Introduction to the Three Volumes of Karl Marx's *Capital*
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by MICHAEL HEINRICH

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Preface

Protest is occurring again. In 2011 the “Arab Spring” rocked the Arab world and overthrew a number of rulers, who which seemed to be invincible, at least by to their people. In summer people in several countries of Western Europe were inspired by the actions of the Arab Spring. They conquered public places to protest against the policies of their governments. And in fall 2011 “Occupy Wall Street” started in New York, leading to “Occupy” movements in many other countries. With the banking crisis of 2008 more people than ever during the last decade question capitalism: is it really the system that provides freedom and wealth for the majority as it is promised by its supporters? Or is it the system that brings wealth only to the 1 percent and economic pressure and misery in at different levels to the 99 percent? Even beyond traditionally left circles, discussions about the destructive consequences of “capitalism are taking place.

That this is not a matter of course is proven by a quick glance into the past. At the beginning of the 1990s, after the collapse of the Soviet Union, it seemed as though capitalism had ultimately and globally triumphed as an economic and social model to which there was no alternative. Although there had always been many on the left who did not see a desirable alternative to capitalism in Soviet “really existing socialism,” such distinctions no
longer seemed important. To most people, a society beyond the capitalist market economy appeared only as an entirely unrealistic utopia. Instead of protest, accommodation and resignation reigned.

But it was also—and in particular—the 1990s that showed that capitalism, even after its apparent “final victory,” continued to go hand in hand with processes of crisis and immiseration; and Kosovo, Afghanistan, and the first war in Iraq showed that wars in which the developed capitalist countries were not only indirectly, but indeed very directly involved, were by no means a thing of the past. All this was taken up in different forms by the new “counter-globalization” movement and other social movements and made the point of departure for critique. Initially, these critiques were focused on single issues and posed limited demands that remained within the framework of the system. Furthermore, the critiques often rested upon a simple black-and-white moralism. However, throughout the course of these conflicts, fundamental questions kept being asked: about contemporary capitalism’s mode of operation; about the connection between capitalism, the state, and war; and also about what kinds of changes are actually possible within capitalism.

Leftist theory became important again. Every transformative practice assumes a particular understanding of that which exists. If, for example, we demand the introduction of a Tobin tax (that is, the taxation of currency transactions) as a crucial means for the “taming” of a capitalism “unleashed,” then this implies a certain theorization of the importance of financial markets, about tamed or untamed capitalism—whether or not these assumptions are made explicit. How contemporary capitalism functions is not an abstract, academic question. The answer to this question has an immediate practical relevance for every anticapitalist movement.

It is thus not surprising that since the end of the 1990s grand theoretical narratives have been en vogue again, such as Empire, by Antonio Negri and Michael Hardt, Manuel Castells’s The Information Age, or the recently published Debt: The First 5,000 Years by David Graeber. Such books, although very different politically and in terms of content, employ Marx’s categories to a greater or lesser extent: partly they are used to analyze contemporary developments; partly they are criticized as obsolete. It is obvious that today one cannot avoid Marx’s Capital if one
wants to fundamentally understand capitalism. However, common not only to these three books but also to a lot of other publications is their somewhat superficial treatment of Marx’s categories: they often appear only as empty phrases. An engagement with the original is necessary, not only to criticize such superficiality, but above all because *Capital*, written more than a hundred years ago, gives a more comprehensive analysis of capitalism and is in many ways more contemporary than many of the pompously packaged works written in the present.

If we begin to read *Capital*, we encounter certain difficulties. Particularly at the beginning, the text is not always very easy to understand. The three books’ mere girth is also likely to act as a deterrent. Under no circumstances, however, should one be satisfied with reading only the first volume. Since Marx represents his object of inquiry on different levels of abstraction that mutually imply and complement each other, the theory of value and surplus value dealt with in the first volume can only be fully understood at the end of the third volume. What one believes to be understood after reading only the first volume is not only incomplete, but in fact distorted.

It is also somewhat tricky to understand the claim expressed in the subtitle of *Capital* and which Marx also used to characterize his entire scientific project: Critique of Political Economy. In the nineteenth century, *political economy* broadly referred to that which we today call economics. By using the term “critique of political economy,” Marx suggests that he is not interested only in a new presentation of political economy, but rather in a fundamental critique of all established economic science. Marx wants a “scientific revolution,” albeit with a political, social revolutionary interest in mind. In spite of all these difficulties, one should read *Capital*. The following Introduction cannot replace reading the original; it is only meant to offer an initial orientation. (A detailed commentary on the first two chapters of *Capital* amended by commentaries on other Marxian texts dealing with value theory can be found in Heinrich (2009). A continuation of this commentary (covering chapters 3–7) will appear in 2013.)

In this, readers should be aware that they are bringing to this text certain assumptions about the nature of capital, crisis, and also of the purpose of Marxian theory. These assumptions, which have been formed automat-
ically by schools and media, through conversations and conflicts, have to be critically interrogated. The point is not only to engage with something new, but also to investigate that which seems familiar and obvious.

This interrogation should begin with the first chapter. There we develop, on the one hand, a preliminary definition of capitalism that is different from many everyday understandings of the term. On the other hand, we discuss the role of Marxism in the workers’ movement. The point is to show that there is in fact no such thing as “Marxism.” There has always been disagreement as to what the core of Marx’s theory really is—not only between “Marxists” and “critics of Marx,” but also among “the Marxists” themselves. After the second preparatory chapter (chapter 2), which is dedicated to a preliminary characterization of the subject matter of Capital, the proceeding chapters roughly follow the structure of the argument in the three volumes of Capital: chapters 3 to 5 treat the content of the first volume, chapter 6 the content of the second, and chapters 7 to 10 the content of the third volume.

Marx planned but never managed to carry out an analysis of the state that would proceed as systematically as his analysis of the economy. In Capital, we find only a few scattered remarks on the state. However, a critique of capital without a critique of the state is not only incomplete, it actually invites misunderstandings. Chapter 11 will therefore briefly develop some points for a critique of the state. The concluding chapter 12 contains a short discussion of what socialism and communism mean for Marx and what they do not.

Particularly over the last few decades, many of the reductionisms of traditional “worldview” Marxism (Weltanschauungsmarxismus) (on this term see chapter 1.3) have been subject to critique. This critique has read Marx not only, as the traditional perspective did, as the better economist, but primarily as a critic of a social structure that is mediated by value and thus “fetishized.” This “new reading” of Marx’s work on the critique of political economy forms the basis of the present Introduction. My presentation thus builds on a particular interpretation of Marx’s theory, while others are dismissed. However, to remain within the scope of this Introduction, I had to largely refrain from engaging with other interpretations. I explain my understanding of the critique of political economy in
more detail in Heinrich (1999). A discussion of the relevant literature can be found in Heinrich (1999a).

Chapter 3 engages with Marx’s theory of value. I suggest that this chapter be read particularly closely, including by those who already believe they understand the theory and only want to inform themselves about topics that build upon it such as credit and crisis. This chapter is not only the basis for everything that follows; the above-mentioned “new reading” of Marx’s work is also particularly apparent here.

In completing the [German] text of this Introduction, I have received much support. For the sometimes multiple critical readings of individual parts of the manuscript, for intensive discussions and important suggestions, my particular gratitude goes out to Marcus Bröskamp, Alex Gallas, Jan Hoff, Martin Krzywdzinski, Ines Langemeyer, Henrik Lebuhn, Kolja Lindner, Urs Lindner, Arno Netzbandt, Bodo Niendl, Sabine Nuss, Alexis Petrioli, Thomas Sablowski, Dorothea Schmidt, Anne Steckner, and Ingo Stützel.

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**TRANSLATOR’S NOTE**

English citations of Capital have been taken from the Penguin Classics edition of Capital, volume 1, translated by Ben Fowkes (1990), and volumes 2 and 3, translated by David Fernbach (1992 and 1991, respectively). Other English language citations have been taken from Marx-Engels Collected Works (MECW), the most complete edition in English. In some quotations the English translations had to be corrected, but this is always indicated. Some quotes are taken from Marx Engels Gesamtausgabe (MEGA), the complete edition of all works of Marx and Engels. These are translated by Alex Locascio.
1. Capitalism and Marxism

1.1 What Is Capitalism?

Contemporary societies are traversed by a variety of relations of domination and oppression that are expressed in various forms. We find asymmetrical gender relations, racist discrimination, enormous differences of property ownership with corresponding differences in social influence, anti-Semitic stereotypes, and discrimination against certain types of sexual orientation. There has been much debate concerning the connection between these relations of domination, and particularly concerning the question as to whether one of them is more fundamental than the others. If relations of domination and exploitation rooted in the economy are placed in the foreground in the following account, then it is not because they are the only relevant relations of domination. However, one cannot simultaneously address all such relations of domination. Marx’s critique of political economy is primarily concerned with the economic structures of capitalist society, and for that reason they are placed at the center of the present work. But one should not succumb to the illusion that with an analysis of the fundamentals of the capitalist mode of production that everything decisive has already been said about capitalist societies.
The question of whether we live in a "class society" seems to be a matter of controversy, especially in Germany. The mere use of the term "class" is frowned upon. Whereas England's arch-reactionary former prime minister Margaret Thatcher had no problem referring to the "working class," even Social Democrats in Germany have problems uttering the word. Over here, there are only "Arbeitnehmer," or employees, "Unternehmer," or entrepreneurs, "Beamte," or civil servants, and above all else the "Mittelschicht"—literally: "middle level," avoiding any use of the term class—or "middle class." At the same time, talk of classes is in no way in and of itself particularly critical. That's not only the case for conceptions of "social justice" that aspire to an equilibrium between classes, but also for some allegedly "leftist" conceptions of bourgeois politics as a sort of conspiracy of the "ruling class" against the rest of society.

The existence of a ruling class, opposed to a "ruled" and "exploited" class, might be a surprise for a conservative social studies teacher who only knows "citizens," but this fact alone doesn't say very much. All societies that are known to us are "class societies." "Exploitation" only means in the first instance that the dominated class not only produces its own subsistence, but also that of the ruling class. These classes have manifested themselves in different ways throughout history: slaves existed opposite slave owners in ancient Greece, serfs existed opposite landlords in the Middle Ages, and in capitalism the bourgeoisie, the propertied class, exists opposite the proletariat, wage-dependent laborers. What is decisive is how class domination and exploitation function in a particular society. And in this, capitalism distinguishes itself fundamentally from precapitalist societies in two respects:

1. In precapitalist societies, exploitation rested upon a relationship of personal domination and dependency: the slave was the property of his owner; the serf was bound to his respective lord. The lord had direct authority over his servant. On the basis of this authority, the "lord" appropriated a portion of the product that the "servant" produced. Under capitalist relations, wage laborers enter into a contract with a capitalist. Wage laborers are formally free (there is no external force that compels them to sign a contract, and contracts, once signed,
can be annulled later) and are *formally equal* to capitalists (there are actual advantages to the ownership of a large estate, but there are no "inherited" legal privileges such as exist in a society characterized by the existence of a nobility). A *personal* relationship of force does not exist—at least not as a rule in the developed capitalist societies. Therefore, for many theorists of society, *bourgeois society*, with its free and equal citizens, appears to be the opposite of the feudal society of the Middle Ages with its caste privileges and personal relations of dependency. And many economists contest the notion that something like exploitation even exists in capitalism and, at least in Germany, prefer to speak of a "market economy." Thus it is alleged that various "factors of production" (labor, capital, and land) act together and receive a corresponding share of income (wage, profit, and ground rent). The question of how domination and exploitation in capitalism are realized precisely *by means of* the formal freedom and equality between "partners in exchange" will be discussed later on.

2. In precapitalist societies, the exploitation of the dominated class served primarily the consumption of the ruling class: its members led a luxurious life, used appropriated wealth for their own edification or for that of the public (theater performances in ancient Greece, games in ancient Rome) or to wage war. Production *directly* served the *fulfillment of wants*: the fulfillment of the (forcibly) restricted needs of the dominated class and the extensive luxury and war needs of the ruling class. Only in exceptional cases was the wealth expropriated by the ruling class used to enlarge the basis of exploitation, such as when consumption was set aside to purchase more slaves, to produce a greater amount of wealth. But under capitalist relations, production for the sake of increasing the capacity to produce is typically the case. The gains of a capitalist enterprise do not serve in the first instance to make a comfortable life for the capitalist possible, but are rather invested anew, in order to generate more gains in the future. Not the satisfaction of wants, but the *valorization of capital* is the *immediate* goal of production; the fulfillment of wants and therefore a comfortable life for the capitalist is merely a by product of this process, but not its goal. If
the gains are large enough, then a small portion is sufficient to finance the luxurious existence of the capitalist, and the greater portion can be used for the accumulation (enlargement) of capital.

The fact that earnings do not primarily serve the consumption of the capitalist, but rather the continuous valorization of capital, that is, the restless movement of more-and-more accumulation, might sound absurd. But the issue at hand is not an individual act of insanity. Individual capitalists are forced into this movement of restless profiteering (constant accumulation, expansion of production, the introduction of new technology, etc.) by competition with other capitalists: if accumulation is not carried on, if the apparatus of production is not constantly modernized, then one’s own enterprise is faced with the threat of being steamrolled by competitors who produce more cheaply or who manufacture better products. A capitalist who attempts to withdraw from this process of constant accumulation and innovation is threatened with bankruptcy. He is therefore forced to participate, whether or not he wants to. In capitalism, “excessive profit-seeking” is not a moral failure on the part of individuals, but rather a necessity for surviving as a capitalist. As will be shown more clearly in the following chapters, capitalism rests upon a systemic relationship of domination that produces constraints to which both workers and capitalists are subordinated. For that reason, a critique that takes aim at the “excessive profit-seeking” of individual capitalists but not at the capitalist system as a whole is too narrow.

By capital we understand (provisionally; we’ll get more precise later) a particular sum of value, the goal of which is to be “valorized,” which is to say, generate a surplus. This surplus can be obtained in various ways. In the case of interest-bearing capital, money is lent at interest. The interest thus constitutes the surplus. In the case of merchant capital, products are purchased cheaply in one place and sold dearly in another place (or at another point in time). The difference between the purchase price and the sale price (minus the relevant transaction costs) constitutes the surplus. In the case of industrial capital, the production process itself is organized along capitalist lines: capital is advanced for the purchase of means of production (machines, raw materials) and for the employment of forces of
labor, so that a process of production comes about under the direction of a capitalist (or his agents). The products produced are then sold. If the revenue is higher than the costs used for means of production and wages, then the originally advanced capital has not only reproduced itself, but has also yielded a surplus.

Capital in the sense outlined above—primarily as interest-bearing and merchant capital, not so much as industrial capital—has existed in practically all societies in which exchange and money existed, but it played mainly a subordinate role, whereas production for need was dominant. One can first speak of **capitalism** when trade and, above all, production is conducted in a predominantly capitalist manner—that is, profit-oriented rather than needs-oriented. Capitalism in this sense is primarily a modern European phenomenon.

The roots of modern capitalist development in Europe extend back to the high Middle Ages. Initially, foreign trade was organized on a capitalist basis, with the medieval crusades—wars of plunder—playing an important role in the expansion of trade. Gradually, merchants who had initially bought preexisting products to sell in a different locale started to take control of production: they contracted out the production of certain products, advanced the costs for the raw materials, and dictated the price at which they purchased the final product.

The development of European culture and European capital experienced a decisive upturn in the sixteenth and seventeenth centuries. What is often described in schoolbooks as an "Age of Discovery" was summarized by Marx in the following manner:

The discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of the indigenous population of that continent, the beginnings of the conquest and plunder of India, and the conversion of Africa into a preserve for the commercial hunting of blackskins, are all things which characterize the dawn of the era of capitalist production. The treasures captured outside Europe by undisguised looting, enslavement and murder, flowed back to the mother country and were turned into capital there. (*Capital*, 1:915, 918)
Within Europe, capitalist production took hold of further areas, manufactories and factories emerged, and industrial capitalists employing constantly growing labor forces inside of increasingly large production facilities established themselves alongside the merchant capitalists. This industrial capitalism developed initially in England in the late-eighteenth and early-nineteenth centuries, with France, Germany, and the United States following in the nineteenth century. In the twentieth century, there occurred a thorough capitalization of almost the entire world, but there were also attempts by a few countries, such as Russia and China, to extract themselves from this development by building a "socialist system" (see chapter 12 below). With the collapse of the Soviet Union's and China's orientation toward a capitalist market-economy, capitalism at the beginning of the twenty-first century knows no boundaries, at least not of the geographical sort. Although no part of the world is without capitalist influence, not all parts of the world are thoroughly capitalized (as a glance at large parts of Africa will show), but this isn't because capital would encounter resistance, but because the conditions of valorization are of varying favorability, and capital always seeks out the best possibilities for profit and leaves the less profitable ones alone for the time being.

1.2 The Emergence of the Workers' Movement

Not only was the development of appropriately large fortunes a precondition for the development of industrial capitalism, it also involved the "freeing" of forces of labor: people who were no longer subject to feudal relations of dependency, who were formally free, and therefore had the possibility for the first time to sell their labor-power, yet also were "free" from every source of income, who possessed no land they could cultivate in order to survive, and thus were forced to sell their labor-power to survive.

Small peasant farmers who had been impoverished or expelled from their land (landlords had often transformed cropland into pasture land, since this was more profitable), as well as ruined artisans and day laborers constituted the core of this "proletariat," which was often forced
into permanent wage labor by the deployment of the most brutal state violence—persecution of "vagabonds" and "beggars," the erection of so called workhouses. The emergence of modern capitalism was not a peaceful, but rather a deeply violent process, concerning which Marx wrote in *Capital*:

> If money, according to Augier, "comes into the world with a congenital blood-stain on one cheek," capital comes dripping from head to toe, from every pore, with blood and dirt. (*Capital*, 1:925–26)

At the cost of enormous human sacrifice, industrial capitalism developed in Europe (initially in England) at the beginning of the nineteenth century. Workdays of up to fifteen or sixteen hours and labor forced upon children of six or seven years of age were just as widespread as extremely unhealthy and hazardous conditions of work. And for all that wages were hardly sufficient for survival.

Resistance arose against these conditions from various quarters. Workers sought higher wages and better working conditions. The means used to achieve these goals varied, and ranged from petitions to strikes to militant battles. Strikes were frequently put down violently through the deployment of police and the military, and the first trade unions were often persecuted as "insurrectionary" associations, their leaders often convicted as criminals. Throughout the entire nineteenth century, battles were carried out for the recognition of trade unions and strikes as a legitimate means of struggle.

With time, enlightened citizens and even individual capitalists criticized the miserable conditions under which a large part of the constantly growing proletariat vegetated during the course of industrialization.

Ultimately, the state was forced to notice that the young men who were subject at an early age to the overly long work hours of the factories were no longer suitable for military service. Partially under pressure from the increasingly strong working class, partially due to the insight that capital and the state needed halfway healthy people as forces of labor and as soldiers, the "factory laws" were introduced in the nineteenth century, again with England leading the way. Minimal health protections for employees
were mandated, while the minimum age for child labor was raised and the maximum daily working hours for child laborers lowered. Ultimately, the working time for adults was limited. In most sectors, a normal workday of twelve and later ten hours was introduced.

During the nineteenth century, the workers' movement grew increasingly strong, and there emerged trade unions, workers' associations, and ultimately also workers' political parties. With the extension of suffrage, which was initially limited to property owners (or more precisely: property-owning males), the parliamentary fractions of these parties continued to grow. A constant source of debate was the question concerning the goal of the struggle of the workers' movement: was the issue merely that of a reformed capitalism or of the abolition of capitalism? Also debated was the question of whether states and governments were opponents that should be fought just as much as capital or whether they were possible coalition partners who merely needed to be convinced of the proper perspective.

Since the first decades of the nineteenth century, there emerged an abundance of analyses of capitalism, utopian conceptions of socialism, reform proposals, and strategic blueprints as to how particular goals were to be best achieved. From the middle of the nineteenth century onwards, Marx and Engels won increasing influence within these debates. Toward the end of the nineteenth century, both had already died, but "Marxism" was dominant within the international workers' movement. However, even back then it was questionable as to how much this "Marxism" had anything to do with Marx's theory.

1.3 Marx and "Marxism"

Karl Marx (1818–1883) was born in Trier. He came from an educated petit-bourgeois family; his father was a lawyer. Marx formally studied law in Bonn and Berlin, but occupied himself above all else with the then-dominant philosophy of Hegel (1770–1831) and the Young Hegelians, a radical group of followers of Hegel.

In 1842–43 Marx was the editor of the Rheinische Zeitung, which functioned as an organ of the liberal Rhineland bourgeoisie in opposition
to the authoritarian Prussian monarchy. In his articles, Marx criticized Prussian policies, whereby the Hegelian conception of the “essence” of the state, namely the realization of a “reasonable freedom” standing above all class interests, served as the benchmark of criticism. During the course of his journalistic activity, Marx came into more and more contact with economic questions, which made the Hegelian philosophy of the state appear increasingly dubious.

Under the influence of Ludwig Feuerbach (1804-1872), a radical critic of Hegel, Marx attempted to take “real human beings” as his point of departure rather than Hegelian abstractions. In doing so, he wrote his *Economic and Philosophical Manuscripts* of 1844, which were never published during his lifetime. In these texts, he developed his “theory of alienation,” which would go on to enjoy an extraordinary reception in the twentieth century. Marx attempted to show that under capitalist relations the species being (*Gattungswesen*), the human essence of real humans—that is to say what separates them from animals, namely that they developed their potential and ability through labor—is “alienated”: as wage laborers they do not possess the products of their labor, nor do they control the labor process, both being subject to the rule of the capitalist. *Communism*, the abolition of capitalism, is therefore conceived of by Marx as the transcendence of alienation, as the reappropriation of human species (*Gattungswesen*), the human essence being by real humans.

During his time with the *Rheinische Zeitung*, Marx got to know Friedrich Engels (1820-1895), the son of a factory owner from Barmen (today a part of Wuppertal). In 1842, for the purposes of completing his training as a merchant, Engels was sent by his parents to England and witnessed the misery of the English industrial proletariat. By the end of 1844 there existed between Marx and Engels a close personal friendship that would endure until the end of their lives.

In 1845 they jointly wrote the *German Ideology*, a work (unpublished during their lifetimes) that was intended as a settling of accounts not only with the “radical” Young Hegelian philosophers, but also, as Marx later wrote, “with our former philosophical conscience” (MECW, 29:264). In this work, as in the *Theses on Feuerbach* that Marx wrote shortly before the *German Ideology*, Marx and Engels criticized in particular the philosophi-
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cal conception of a “human essence” and of “alienation.” The really existing social relations under which people live and work became the object of investigation. Subsequently, the concept of a human species-being or essence no longer surfaces in Marx’s work, and he only rarely and vaguely speaks of alienation. In discussions concerning Marx, it is a point of contention as to whether he actually discarded the theory of alienation or whether he simply no longer placed it at the foreground of his work. The debate as to whether there is a conceptual break between the writings of the “young” and those of the “old” Marx is primarily concerned with this question.

Marx and Engels would become widely known through the *Communist Manifesto*, published in 1848 shortly before the outbreak of the revolutions of the same year, a programmatic text that was composed under the auspices of the League of Communists, a small revolutionary group that existed only for a short time. In the *Communist Manifesto*, Marx and Engels concisely and succinctly outlined the rise of capitalism, the increasingly fierce emerging antagonism between bourgeoisie and proletariat, and the inevitability of a proletarian revolution. This revolution would lead to a communist society, based upon the abolition of private property over the means of production.

After the suppression of the revolution of 1848, Marx had to flee Germany. He settled in London, which was then the capitalist center *par excellence* and also the best place to study the development of capitalism. Furthermore, Marx could draw upon the resources of the enormous library of the British Museum.

The *Communist Manifesto* originated more from an ingenious intuition rather than from any far-reaching scientific knowledge (some assertions, such as the allegation of an absolute immiseration of the workers, were later revised by Marx). Marx had already started to deal with economic literature in the 1840s, but he only began a comprehensive and deep scientific engagement with political economy in London. This led him at the end of the 1850s to the project of a planned multi-volume “Critique of Political Economy,” for which a series of extensive manuscripts were developed starting in the year 1857, none of which, however, were completed or published by Marx (among these were the *Introduction* of 1857, the *Grundrisse* of 1857–58, and the *Theories of Surplus Value* of 1861–1863).
Marx worked on this project until the end of his life, but would publish very little. As a prelude, the *Contribution to the Critique of Political Economy*, a small text concerning the commodity and money, was published in 1859, but was not continued. Instead, the first volume of *Capital* came out in 1867, and in 1872 the revised second edition of the first volume was released. Volumes 2 and 3 were brought out after Marx's death by Friedrich Engels, in 1885 and 1894, respectively.

Marx did not limit himself to scientific work. In 1864, he was a decisive participant in the founding in London of the International Workingmen's Association, and formulated its "Inaugural Address," which contained its programmatic ideas as well as a draft of its statutes. In the following years, as a member of the general council of the International, he exercised considerable influence over its policies. Not least through its various national sections the International supported the founding of Social Democratic labor parties. In the 1870s the International was dissolved, partly due to internal conflicts, partly because a centralized organization alongside the individual parties had become superfluous.

For the Social Democratic parties, Marx and Engels constituted a sort of think tank: they engaged in an exchange of letters with various party leaders and wrote articles for the Social Democratic press. They were asked to state their positions concerning the most varied political and scientific questions. Their influence was the greatest within the German Social Democratic Party (SPD), founded in 1869, which developed at a particularly rapid pace and soon served as a model for the other parties.

Engels composed a series of popular works for the Social Democracy (the SPD), in particular the so-called *Anti-Dühring*. The *Anti-Dühring* and above all the short version, *Socialism: Utopian and Scientific*, which was translated into many languages, was among the most widely read texts of the workers' movement in the period before the First World War. *Capital*, on the other hand, was usually taken note of by only a small minority. In the *Anti-Dühring* Engels critically engaged with the ideas of Eugen Dühring, a university lecturer in Berlin. Dühring claimed to have developed a new, comprehensive system of philosophy, political economy, and socialism, and was able to win an increasing number of adherents in the German Social Democracy.
Dühring’s success rested upon a strong desire within the workers’ movement for a Weltanschauung, or “worldview,” a comprehensive explanation of the world offering an orientation and answers to all questions. After the worst outgrowths of early capitalism had been eliminated and the everyday existence of the wage-dependent class within capitalism was somewhat secure, a specific Social Democratic workers’ culture developed: in workers’ neighborhoods there emerged workers’ sports clubs, workers’ choral societies, and workers’ education societies. Excluded from the exalted bourgeois society and bourgeois culture, there developed within the working class a parallel everyday life and educational culture that consciously attempted to distance itself from its bourgeois counterpart, but often ended up unconsciously mimicking it. And so it was that at the end of the nineteenth century August Bebel, the chairman of the SPD over the course of many years, was graciously honored in a manner similar to the way that Kaiser Wilhelm II was honored by the petit-bourgeoisie. Within this climate, there emerged the need for a comprehensive intellectual orientation that could be opposed to the dominant bourgeois values and worldview, in which the working class played no role or merely a subordinate role.

Insofar as Engels not only criticized Dühring but also sought to counterpose the “correct” positions of a “scientific socialism,” he laid the foundations for the worldview of Marxism, which was appreciatively taken up in Social Democratic propaganda and further simplified. This Marxism found its most important representative in Karl Kautsky (1854–1938), who until the First World War was regarded as the leading Marxist theoretician after the death of Engels. What dominated the Social Democracy at the end of the nineteenth century under the name of Marxism consisted of a miscellany of rather schematic conceptions: a crudely knitted materialism, a bourgeois belief in progress, and a few strongly simplified elements of Hegelian philosophy and modular pieces of Marxian terminology combined into simple formulas and explanations of the world. Particularly outstanding characteristics of this popular Marxism were an often rather crude economism (ideology and politics reduced to a direct and conscious transmission of economic interests), as well as a pronounced historical determinism that viewed the end of
capitalism and the proletarian revolution as inevitable occurrences. Widespread in the workers’ movement was not Marx’s critique of political economy, but rather this “worldview Marxism,” which played above all an identity-constituting role: it revealed one’s place as a worker and socialist, and explained all problems in the simplest way imaginable.

A continuation and further simplification of this worldview Marxism took place within the framework of “Marxism-Leninism.” Lenin (1870–1924), who became after 1914 so influential, was intellectually rooted in worldview Marxism. He openly expressed the exaggerated self-confidence of this “Marxism”:

> The teaching of Marx is all-powerful because it is true. It is complete and harmonious, providing men with a consistent view of the universe, which cannot be reconciled with any superstition, any reaction, any defense of bourgeois oppression. (Lenin, *The Three Sources and Three Component Parts of Marxism*)

Before 1914, Lenin supported the Social Democratic center around Karl Kautsky against the left wing represented by Rosa Luxemburg (1871–1919). His break with the center came at the beginning of the First World War, when the SPD voted for war credits requested by the German government. From then on, the split within the workers’ movement took its course: A Social Democratic wing that in the next few decades would move further away—both theoretically and practically—from Marxist theory and the goal of transcending capitalism stood opposite a Communist wing that nurtured a Marxist phraseology and revolutionary rhetoric, but existed above all to justify the zigzags in the domestic and foreign policy of the Soviet Union (such as during the Hitler-Stalin pact).

After his death, the Communist wing of the workers’ movement turned Lenin into a Marxist “Pillar-Saint.” His polemical writings, most of which were written within the context of contemporary debates within the workers’ movement, were honored as the highest expression of “Marxist science” and were combined with already existing “Marxism” into a dogmatic system of philosophy (Dialectical Materialism), history (Historical Materialism), and political economy: Marxism-Leninism.
This variant of worldview Marxism served above all else an identity-constituting role, and in the Soviet Union in particular legitimized the political domination of the party and suffocated open discussion.

Ideas in general circulation today concerning Marx and Marxian theory—whether these are appraised positively or negatively—are essentially based upon this worldview Marxism. Readers of the present work might also have certain, seemingly self-evident, ideas concerning Marxian theory that are derived from this worldview Marxism. But the sentiment Marx expressed to his son-in-law, Paul Lafargue, after the latter gave an account of French “Marxism” also applies to a large amount of that which assumed the label of “Marxism” or “Marxism-Leninism” over the course of the twentieth century: “If anything is certain, it is that I myself am not a Marxist” (MECW, 46:356).

However, this worldview Marxism did not remain the only kind of Marxism. Against the background of the split in the workers’ movement into Social Democratic and Communist wings, as well as the disappointment of the revolutionary hopes that existed after the First World War, there developed in the 1920s and 1930s differing (and widely diverging) variants of a “Marxist” critique of worldview Marxism. These new currents, which are associated with, among others, Karl Korsch, Georg Lukács, Antonio Gramsci (whose *Prison Notebooks* were published after the Second World War), Anton Pannekoek, and the Frankfurt School founded by Max Horkheimer, Theodor W. Adorno, and Herbert Marcuse, are often retrospectively aggregated under the label “Western Marxism.”

For a long time, Western Marxism only criticized the philosophical and theoretical-historical foundations of traditional Marxism: Dialectical and Historical Materialism. The fact that the critique of political economy was often reduced to a “Marxist political economy” by traditional Marxism and that the comprehensive meaning of the word *critique* had been lost only reemerged into view in the 1960s and 1970s. As a consequence of the students’ movement and the protests against the U.S. war in Vietnam, there was an upsurge of leftist movements beyond and outside of the traditional Social Democratic and Communist parties of the workers’ movement, and a renewed discussion concerning Marx’s theory. Now a
far-reaching discussion of Marx’s critique of political economy emerged. The writings of Louis Althusser and his associates were very influential in this regard (Althusser 1965, Althusser/Balibar 1965). Furthermore, the discussion was no longer limited to Capital; other critical economic writings by Marx, such as the Grundrisse, were incorporated, the latter gaining popularity above all due to Roman Rosdolsky’s book (1968). For the (West) German discussion, the writings of Hans-Georg Backhaus (collected in Backhaus 1997) and Helmut Reichelt’s book (1970) played a central role; they provided a new impetus for the new reading of Marx’s critical economic writings mentioned in the Preface to the present text. The present work also stands within the substantive context of this “new reading of Marx.” The differences between this new reading and traditional Marxist political economy, merely alluded to in this chapter, will become clearer throughout the course of this work.
2. The Object of Critique in the Critique of Political Economy

In *Capital*, Marx examines the capitalist mode of production. The question, however, is in *what manner* capitalism is the object of study: in the text there are abstract-theoretical inquiries into money and capital as well as historical passages, such as those dealing with the development of capitalist relations in England. Is *Capital* first and foremost concerned with the main features of the *history of capitalist development*, or with a particular *phase* of capitalism, or is the point rather an *abstract-theoretical depiction of the mode of operation* of capitalism? Or, to raise the question more generally, how do history and theoretical depiction relate to each other within the critique of political economy?

A further question concerns the relationship between Marx’s depiction of the capitalist mode of production and bourgeois economic theory: Is Marx presenting merely just another theory of the mode of operation of capitalism? Does the “critique” in the critique of political economy consist solely of previously existing theories being proven wrong in certain places so that Marx may present a better theory? Or does “critique” make a more comprehensive claim? To formulate things more generally: What does “critique” mean within the framework of the critique of political economy?
2.1 Theory and History

Engels had already suggested a "historical" manner of reading Marx's account. In a review of the early writing, *A Contribution to the Critique of Political Economy* of 1859, he wrote that the "logical" depiction of categories presented by Marx (logical here meaning conceptual, theoretical) is "indeed nothing but the historical method, only stripped of the historical form and of interfering contingencies" (MECW, 16:475). And Karl Kautsky, who published a popular outline of the first volume of *Capital* in 1887, wrote that *Capital* is "an essentially historical work."

Then, at the beginning of the twentieth century, it became common knowledge among the leading figures of the workers' movement that capitalism had entered a new phase of development, that of "imperialism." Marx's *Capital* was understood as an analysis of "competitive capitalism," a phase of capitalist development preceding imperialism. Marx's research, therefore, now had to be continued by analyzing the next historical phase of capitalism—imperialism. Hilferding (1910), Luxemburg (1913), and Lenin (1917) took up this task in various ways.

One also frequently hears from contemporary economists, insofar as they don't reject Marx's analysis entirely, that it is at best valid for the nineteenth century. But in the twentieth century, economic conditions have supposedly undergone such extensive change that Marx's theory is of no use (which is why one hears so little of it in most economics departments). Such "historicizing" ways of reading Marx, which are also typical of many introductions to Marx's *Capital*, are at the very least opposed to Marx's own understanding of his work. In the foreword to the first volume Marx writes the following concerning the object of his research:

What I have to examine in this work is the capitalist mode of production, and the relations of production and forms of intercourse *[Verkehrsverhältnisse]* that correspond to it. Until now, their *locus classicus* has been England. That is the reason why England is used as the main illustration of the theoretical developments I make. [...] Intrinsically, it is not a question of the higher or lower degree of development of the social antagonisms that spring from the natural laws of capitalist pro-
duction. It is a question of these laws themselves, of these tendencies winning their way through and working themselves with iron necessity. (Capital, 1:90–91)

Here Marx explicitly states that he is concerned neither with the history of capitalism nor with a specific historical phase of capitalism, but rather with a "theoretical" analysis of capitalism: examined are the essential determinants of capitalism, those elements which must remain the same regardless of all historical variations so that we may speak of "capitalism" as such. What is portrayed is therefore not a (historically or geographically) specific capitalism, but rather, as Marx says at the end of the third volume of Capital, "We are only out to present the internal organization of the capitalist mode of production, its ideal average, as it were" (Capital, 3:970).

With this statement Marx merely formulates the claim he makes for his account. Whether this claim is actually redeemed, whether Marx actually manages to portray the capitalist mode of production "in its ideal average," is something to be addressed when we deal with the details of his account.

The statements cited above clarify the level of abstraction of Marx's account: if the analysis is carried out at the level of the "ideal average" of the capitalist mode of production, then it actually provides the categories that must underlie any research into the history of capitalism or a particular phase.

The notion that one must know history in order to understand the present has a certain justification when applied to the history of events, but not for the structural history of a society. Rather, the opposite is the case: to examine the constitution of a particular social and economic structure, one has to be already familiar with the completed structure. Only then will one know what to look for in history. Marx formulated this idea with the help of a metaphor:

The anatomy of man is a key to the anatomy of the ape. On the other hand, indications of higher forms in the lower species of animals can only be understood when the higher forms themselves are already known. (MECW, 28:42)
For this reason, the “historical” passages in Capital come after the (theoretical) depictions of the corresponding categories and not before: thus the well-known chapter about the “So-called Primitive Accumulation,” which concerns the emergence of the “free” wage laborer as a precondition of the capital relationship, is placed not at the beginning but at the end of the first volume of Capital. The historical passages complement the theoretical account, but they don’t constitute the theoretical account.

Although Capital is first and foremost a theoretical work (which analyzes a fully developed capitalism) and not a historical work (concerned with the development of capitalism), the depiction is not ahistorical in the sense that contemporary economics to a large extent is. Economics assumes there is a general problem of economic activity that exists in every society—production must occur; scarce means have to be distributed, and so forth. This problem, which is assumed to remain constant throughout all historical phases, is then examined using essentially the same categories (thus some economists view the hand axe of the Neanderthal as a sort of capital). Marx, on the other hand, realizes that capitalism is a particular historical mode of production, which is fundamentally different from other modes of production such as ancient slaveholding societies or the feudalism of the Middle Ages. In this respect, every one of these specific modes of production contains specific relationships that have to be described with categories that only retain their validity with regard to these modes of production. In this sense, the categories that describe the capitalist mode of production are “historical” and in no way transhistorical categories; they are valid only for the historical phase in which capitalism is the dominant mode of production.

2.3 Theory and Critique

Within worldview Marxism, Marx was regarded as the great economist of the workers’ movement who had developed a “Marxist political economy” that one could oppose to “bourgeois economy,” that is, the schools of economics that regarded capitalism positively: Marx had supposedly
taken over the labor theory of value of Adam Smith (1723–1790) and David Ricardo (1772–1823), the most important representatives of so-called classical political economy. According to the labor theory of value, the value of commodities was determined by the labor-time necessary for their production. As distinct from the classical political economists, Marx had allegedly developed a theory of the exploitation of labor-power and the crisis-prone nature of capitalism. According to this view, there are no fundamental categorical differences between Marxist political economy and classical political economy, only differences concerning the conclusions of both theories.

This is basically also the view of contemporary economics: in terms of the substance of his theory Marx is viewed as a representative of the classical school who draws different conclusions than Smith and Ricardo. And since classical political economy is viewed as outmoded by contemporary economics (modern theory has bid farewell to the determination of value by labor), a contemporary economist doesn’t think he has to seriously concern himself with Marx.

However, as the subtitle of Capital makes clear, Marx’s intent was not to provide an alternative “political economy” but a “critique of political economy.” Today, a new scientific approach also contains a critique of previous theories, if for no other reason than to justify its own existence. But Marx was concerned with far more than such a critique. He wanted not only to critique particular theories—he does that in Capital; his critique was aimed rather at the entirety of political economy—he wanted to criticize the categorical presuppositions of an entire branch of knowledge. Marx made clear the comprehensive character of this critique in a letter he wrote to Ferdinand Lassalle at the end of the 1850s:

The work I am presently concerned with is a Critique of Economic Categories or, if you like, a critical exposé of the system of the bourgeois economy. It is at once an exposé and, by the same token, a critique of the system. (MECW, 40:270; emphasis in original)

This critique of categories begins with the most abstract category of political economy, that of value. Marx concedes that political economy
has grasped the “content” concealed in value and its magnitude, the connection between labor and value. But political economy has “never once asked the question why this content has assumed that particular form, that is, why labour is expressed in value and why the measurement of labour by its duration is expressed in the magnitude of the value of the product” (*Capital*, 1:173–74). Marx is not predominantly criticizing the conclusions of political economy, but rather the manner in which it *poses questions*, meaning the distinction between that which political economy aims to explain and that which is accepted as so self-evident that it doesn’t need to be explained at all (such as the commodity form of the product of labor). Thus did Adam Smith, the progenitor of classical economy, proceed on the assumption that humans, as distinct from animals, had a “propensity to truck, barter, and exchange” (1776; Smith, 25). Thus it would be a general human trait to relate to all things as commodities.

Within political economy, social relationships such as exchange and commodity production are “naturalized” and “reified,” that is, social relationships are conceived of as quasi-natural conditions, ultimately as the characteristics of things (according to this conception, things do not first obtain an exchange value on the basis of a particular societal structure, but rather in and of themselves). Through such a naturalization of social relationships, it appears as if things have the properties and autonomy of *subjects*.

Marx characterizes such conditions as an “absurdity” (*Capital*, 1:169), and speaks of a “spectral objectivity” (*gespenstige Gegenständlichkeit*), (128, translation corrected by author and translator—“spectral” instead of “phantom-like”) or “occult quality” (*okkulte Qualität*) (255, corrected translation: “quality” instead of “ability”). What he means in each case will become clearer in the following chapters. In worldview Marxism, as well as in bourgeois critiques of Marx, such conceptions were usually glossed over, or were viewed merely as stylistic peculiarities. However, with these descriptions Marx took aim at a central issue of the critique of political economy, namely, that the *naturalization and reification* of social relationships is in no way the result of a mistake by individual economists, but rather the result of an image of reality that develops independently as a result of the everyday practice of the members
of bourgeois society. At the end of the third volume of Capital, Marx can therefore establish that people in bourgeois society inhabit “the bewitched, distorted and upside-down world” and that this “religion of everyday life” (Capital, 3:969) is not only the basis of everyday consciousness, but also constitutes the background for the categories of political economy.

The question was posed above as to what “critique” means within the context of the critique of political economy. We are now able to provide a tentative answer: critique aims to break down the theoretical field (meaning the self-evident views and spontaneously arising notions) to which the categories of political economy owe their apparent plausibility; the “absurdity” (Verrücktheit) of political economy should be made clear. Here, the critique of perception, the question as to how perception is possible, meets the analysis of the capitalist relations of production: neither is possible without the other.4

However, Marx’s intent with Capital was not simply to write a critique of bourgeois science and bourgeois consciousness, but also to formulate a critique of bourgeois social relations. In a letter, he described his work—not very modestly—as “without question the most terrible missile that has yet been hurled at the heads of the bourgeoisie (landowners included)” (MECW, 42:358).

For this purpose, Marx’s intent was to point out the human and social costs connected with capitalist development. He attempts to prove that “within the capitalist system all methods for raising the social productivity of labour are put into effect at the cost of the individual worker; that all means for the development of production undergo an inversion so that they become means of domination and exploitation of the producers” (Capital, 1:799, corrected translation).5 Or as he put it in another passage:

Capitalist production, therefore, only develops techniques and the degree of combination of the social process of production by simultaneously undermining the original sources of all wealth—the soil and the worker. (Capital, 1:638)

Marx does not intend to make a moral critique with such comments. Marx does not accuse capitalism (or even individual capitalists) of violat-
ing some eternal norms of justice. He is aiming rather to state a matter of fact: that there is an *immanent destructive potential* of capitalism that is activated time and time again (see chapters 5 and 9). On the basis of its manner of functioning, capitalism must always contravene the elementary interests of laborers. Within capitalism, these elementary interests can only be protected in a temporary and limited way, but the situation can only be fundamentally altered when capitalism is abolished.

Marx does not advance a moral “right” to an unscathed existence or something similar against the impositions of capitalism. Instead, he hopes that with the growing insight into the destructive nature of the capitalist system (which can be established without recourse to morality), the working class will take up the struggle against this system—not on the basis of *morality*, but rather on the basis of its own *interest*. Not, however, on the basis of an interest of a better situation within capitalism, but rather on the basis of an interest in a good and secure life, which can only be realized by transcending capitalism.

2.3 Dialectics—A Marxist “Rosetta Stone”?

Whenever Marx’s theory is spoken of, eventually the catchword *dialectics* (or: dialectical development, dialectical method, dialectical portrayal) pops up, and in most cases, there is no explanation of what exactly is meant by this word. Most notably in Marxist political parties, opponents in an argument frequently accuse each other of having an “undialectical conception” of whatever matter is being debated. Also today, in Marxist circles people speak of something standing in a “dialectical relationship” to another thing, which is supposed to clarify everything. And sometimes, whenever one makes a critical inquiry, one is answered with the know-it-all admonishment that one has to “see things dialectically.” In this situation, one shouldn’t allow oneself to be intimidated, but should rather constantly annoy the know-it-all by asking what exactly is understood by the term “dialectics” and what the “dialectical view” looks like. More often than not, the grandiose rhetoric about dialectics is reducible to the simple fact that everything is dependent upon everything else and
is in a state of interaction and that it’s all rather complicated—which is true in most cases, but doesn’t really say anything.

If dialectics is spoken of in a less superficial sense, then one can make a rough distinction between two ways of using this term. In one sense, dialectics is considered to be, according to Engel’s text Anti-Dühring, “the science of the general laws of motion and development of nature, human society and thought” (MECW, 25:131). According to this conception, dialectical development does not proceed uniformly and in a linear manner, but is rather a “movement in contradictions.” Of particular importance for this movement are the “change of quantity into quality” and the “negation of the negation.” Whereas Engels was clear that with such general statements nothing is understood about individual processes, this was anything but clear within the framework of worldview Marxism; “dialectics,” understood as the general science of development, was often viewed as a sort of Rosetta Stone with which everything could be explained.

The second way in which dialectics is spoken of relates to the form of depiction in the critique of political economy. Marx speaks on various occasions of his “dialectical method,” and in doing so also praises Hegel’s achievements. Dialectics played a central role in Hegel’s philosophy. However, Marx alleges that Hegel “mystified” dialectics, and that his dialectic is therefore not the same as Hegel’s. This method gains importance with the “dialectical presentation” of categories. This means that in the course of the presentation the individual categories are unfolded from one another: they are not simply presented in succession or alongside each other. Rather, their interrelationship (how one category necessitates the existence of another) is made clear. The structure of the depiction is therefore not a didactic question for Marx, but has a decisive substantive meaning.

However, this dialectical portrayal is in no way the result of the “application” of a ready-made “dialectical method” to the content of political economy. Ferdinand Lassalle intended such an “application,” which caused Marx to express the following in a letter to Engels: “He will discover to his cost that it is one thing for a critique to take a science to the point at which it admits of a dialectical presentation, and quite another to apply an abstract, ready-made system of logic to vague presentiments of just such a system” (MECW, 40:261).
The precondition of a dialectical portrayal is not the *application* of a method (a widespread conception in worldview Marxism), but rather the *categorical critique*, discussed in the previous section. And such a categorical critique presumes an exact and detailed familiarity and engagement with the substance of a field of knowledge to which the categories refer.

An exact discussion of Marx’s “dialectical presentation” is therefore only possible if one already knows something about the categories being portrayed: one cannot talk about the “dialectical” character of Marx’s account or even the relationship between Marx’s dialectic and Hegel’s before one has engaged with Marx’s account itself. The frequent characterization of Marx’s account as “advancing from the abstract to the concrete” (MECW, 28:38) also says very little to those who are first beginning to read Marx’s *Capital*. Above all else, the actual structure of the presentation in *Capital* is considerably more complex than this formula, which stems from the “Introduction” of 1857, would lead one to believe.

Other than in the foreword and afterword, Marx speaks very seldom of dialectics in *Capital*. He practices a dialectical portrayal, but without demanding from his readers that they deal with the subject of dialectics before reading *Capital*. Only in hindsight can one say what is “dialectical” about Marx’s account. For that reason, the present work does not begin with a section on dialectics.
3. Value, Labor, Money

3.1 Use Value, Exchange Value, and Value

Marx's intent in *Capital* is to analyze the capitalist mode of production, but his analysis does not begin immediately with capital. In the first three chapters, only the commodity and money are mentioned, and capital is dealt with explicitly only from the fourth chapter onward. Within the framework of the historical manner of reading *Capital* mentioned above, the first three chapters are therefore understood as an abstract description of a precapitalist "simple (or petty) commodity production." But the first two sentences make it clear that the chapter is not about precapitalist conditions:

The wealth of societies in which the capitalist mode of production prevails appears as "an immense collection of commodities"; the individual commodity appears as its elementary form. Our investigation therefore begins with the analysis of the commodity. (Capital, 1:125)

Here, Marx points out a specific aspect of *capitalist* socialization: in capitalist society—and only in capitalist society—the "commodity" is the typical form of wealth. Commodities (which we can define provisionally
as goods intended for exchange) also exist in other societies, but only in capitalism society do the overwhelming majority of goods consist of commodities. In the feudal societies of the early Middle Ages, only a small amount of goods were exchanged; the commodity form was more of an exception than the rule. The overwhelming majority of goods consisted of agricultural products and these were either produced for one’s own use or turned over to landlords (nobles or the Church), not exchanged. Not until capitalism does exchange become comprehensive, and with it the commodity form of goods. Only with capitalism does wealth take the form of a “collection of commodities” and only with capitalism is the commodity the “elementary form” of wealth. This commodity, the commodity in capitalist societies, is what Marx intends to analyze.

One only describes something as a commodity if it is exchanged, something that in addition to its use value also has an exchange value. The use value of something is nothing other than its usefulness; for example, the use value of a chair consists of the fact that one can sit on it. The use value is independent of whether or not the object is exchanged.

Now if I exchange the chair for two sheets of linen, then the exchange value of the chair is two sheets of linen. If I exchange the chair for 100 eggs, then 100 eggs are the exchange value of the chair. If I don’t exchange the chair at all, but only use it, then it has no exchange value, and it is also not a commodity, but merely a use value, a chair on which one can more or less comfortably sit.

To be a commodity, to therefore have an exchange value in addition to a use value, is not a “natural” property of things, but rather a “social” one: only in societies where things are exchanged do they possess an exchange value, only then are they commodities. As Marx notes, use values “constitute the material content of wealth, whatever its social form may be” (Capital, 1:126).

And with this we come to an extremely important distinction. The “content” of something (its “natural form”) is distinguished from its “social form”—sometimes Marx speaks of an “economic form-determination” (ökonomische Formbestimmung). The “natural form” of the chair is simply its material composition (for example, whether it is made of wood or metal). “Social form,” on the other hand, means that the chair is a “com-
modity,” something that is exchanged and that therefore possesses an “exchange value.” That the chair is a commodity is not a characteristic of the chair itself as a thing, but rather of the society in which this thing exists.

Individual acts of exchange occur in all forms of society that are known to us. But it is a specific aspect of capitalist society that almost everything is exchanged. This has consequences for quantitative relationships of exchange. In the case of exchange as an isolated phenomenon, there can be various quantitative exchange relationships: I can exchange the chair at one point for two sheets of linen, or at another point for three, etc. But if exchange is the normal form in which goods are transferred, then individual relations of exchange have to “match” each other in a certain way: in the example above, a chair was exchanged for two sheets of linen or for 100 eggs. If this is so, then it must also be the case that one can exchange 100 eggs for 2 sheets of linen. Why is that? If this were not the case, if for example 100 eggs could only be exchanged for one sheet of linen, then by a clever series of acts of exchange I could constantly make a profit: I exchange a sheet of linen for 100 eggs, then 100 eggs for 1 chair, then 1 chair for 2 sheets of linen. Through mere exchange, I would have doubled my inventory of linen sheets, and through a number of corresponding acts of exchange I could continuously increase my wealth. However, this would only be possible as long as I could find exchange partners who would be prepared to carry out the reciprocal acts of exchange. After a short period of time, the other participants in the market would want to imitate my profitable chain, and there would be nobody left who would want to engage in exchange from the other side. Relations of exchange can only be stable when they exclude the possibility that profit and loss can result merely through a particular sequence of exchange acts.

For capitalist societies, in which exchange is the rule, we can therefore conclude: the various exchange values of the same commodity also have to constitute exchange values for each other. If a chair can be exchanged for 2 sheets of linen, and on the other hand for 100 eggs, then one must also be able to exchange 2 linen sheets for 100 eggs.

Now, when such a regularity of exchange exists (and it must exist for exchange to function smoothly), then one cannot help asking what a chair, 2 linen sheets, and 100 eggs have in common. The answer sug-
gested by our everyday experience is: these three things have “the same value.” Through experience with exchange we have a rather exact appreciation of the value of many things. If this diverges in actual exchange from our notion of what a thing is worth, then we conclude that a particular thing is just “cheap” or “expensive.” But the questions for us are, what is it that constitutes this “value,” and how is the respective magnitude of value determined?

Long before Marx, economists had concerned themselves with this question and came to two fundamentally different answers. One answer is: the value of something is determined by its usefulness. For something that is of great use to me, I’m prepared to pay a lot, whereas I’ll pay very little, or nothing at all, for something that is of little use to me. This “utility theory of value,” however, faces a great problem that Adam Smith had already formulated very clearly: water is of great use, we couldn’t live without water, but the value of water is very small. Compared to water, the utility of a diamond is infinitesimally small, but its value is huge. Smith therefore drew the conclusion that it would not be the usefulness of a thing that determines its value. Rather, Smith considered the quantity of labor necessary to produce something as constituting its value. This is the second fundamental answer to the question as to what makes up value.

This “labor theory of value” was the common understanding within political economy during Marx’s time. Applied to our example above, the labor theory of value says that a chair, 2 linen sheets, and 100 eggs have the same value, because the same quantity of labor is necessary to produce them.

There are two obvious objections to the labor theory of value. For one, things are also exchanged that are not products of labor (for example, virgin soil). For another, there are certain products of labor (such as works of art) whose exchange value is completely independent of the labor-time expended for their production.

Regarding the first point, it should be noted that the labor theory of value only explains the value of products of labor. Things that are not products of labor do not possess a “value.” If they’re exchanged, they have an exchange value or price, but no value, and this exchange value has to then be explained separately (Marx did this in vol. 3 of Capital).
As to the second point: a work of art is a product of labor, but unlike normal commodities, it is a unique object, something that only exists once. The price that a buyer is prepared to pay for it is a collector’s price, which has no slightest to do with the labor expended by the artist. However, most economic products are not unique, but rather mass-produced goods, and it is the value of those goods that should be explained.

Marx also sees the value of commodities as accounted for by commodity-producing labor. As an objectification of “equal human labour,” commodities are values. The magnitude of value is determined by “the quantity of the ‘value-forming substance,’ the labour, contained in the article” (Capital, 1:129).

But, Marx continues, it is not the labor-time individually expended by isolated producers that creates value (a chair then produced by a slow carpenter would have more value than an identical chair produced by a speedy carpenter). Rather, it is the “socially necessary labor-time” that creates value.

Socially necessary labour-time is the labour-time required to produce any use-value under the conditions of production normal for a given society and with the average degree of skill and intensity of labour prevalent in that society. (Capital, 1:129)

However, the labor-time socially necessary for the production of a particular use value does not remain constant. If the productivity of labor increases, if more products can be created in the same time span, then the labor-time socially necessary for the production of a single item has diminished and the magnitude of its value declines. If, however, the productivity of labor declines, then the labor-time socially necessary for production increases, and the magnitude of a single product’s value increases. This could be the consequence, for example, of natural conditions: if a harvest is spoiled, then the same quantity of labor yields a smaller output, more labor is necessary for the production of a single fruit, and its value increases.

If exchange exists, then a division of labor is implied. I only exchange for things that I do not myself produce. Division of labor is a precondi-
tion of exchange, but exchange is not a precondition for the division of labor, as a glance at any factory would confirm: within a factory, there is a high level of division of labor, but the products themselves are not exchanged for one another.

Up until now, one might have had the impression that when the term "commodity" is used, it refers solely to physical objects. But what is relevant here is the act of exchange, not the fact that physical objects are being exchanged. Services can also be exchanged and therefore become commodities. The difference between a material product and an "immaterial" service consists solely of a different temporal relationship between production and consumption: the material product is first produced and subsequently consumed (a bread roll should be consumed on the same day, but an automobile can remain by its manufacturer for a few weeks or even months before I have the chance to use it). In the case of a service (whether we are talking about a taxi ride, a massage, or a theater performance), the act of production is concurrent with the act of consumption (as the taxi driver produces a change of place, I consume it). The difference between services and physical objects consists of a distinction of the material content; the question as to whether they are commodities pertains to their social form, and that depends upon whether objects and services are exchanged. And with that, we have sorted out the matter of the frequently stated argument that with the "transition from an industrial to a service economy" or in the left-wing variant of Hardt and Negri—the transition from "material" to "immaterial" production—Marx's value theory has become outmoded.

The aspects of value theory that we have considered up to this point were largely dealt with by Marx on the first seven pages (out of a total of fifty) of the first chapter of Capital. For many Marxists, and most of Marx's critics, this constitutes the core of Marx's value theory: the commodity is use value and value, value is an objectification of human labor, the magnitude of value depends upon the "socially necessary labor-time" required for the production of a commodity (the last point is frequently referred to as the "law of value"). If that were actually all there is to it, then Marx's value theory would not have gone very far beyond classical political economy. But the central value-theoretical insights of Marx are
not limited to these simple propositions. The decisive, most important aspects of Marx’s value theory lay beyond what has thus far been outlined, which shall be made clear in the rest of this chapter.

### 3.2 A Proof of the Labor Theory of Value?
(Individual Agency and Social Structure)

Tied up with the question concerning the difference between Marx’s value theory and classical value theory is the question of whether Marx had “proven” the labor theory of value, that is, whether he had established beyond the shadow of a doubt that labor and nothing else underlies the value of a commodity. This question has been frequently discussed in the literature about Marx. But as we’re about to see, Marx was not at all interested in such a “proof.”

Adam Smith had “proven” the determination of a commodity’s value through labor with the argument that labor entails effort and that we therefore estimate the value of something according to how much effort is involved in producing it. Here, value is ascribed directly to the rational considerations of isolated individuals. Modern neoclassical economic theory argues in a similar manner, taking utility-maximizing individuals as a point of departure and explaining exchange relationships on the basis of utility estimates. Both classical and neoclassical economic theory begin as a matter of course with isolated individuals and their allegedly universal human strategies and attempt to explain the whole of society from this starting point. In order to do this they have to project onto individuals some of the features of the society they purport to explain. Thus does Adam Smith define the “propensity to truck, barter, and exchange” as the characteristic that distinguishes humans from animals, and from there it is of course no problem to derive the structures of an economy based upon commodity exchange from the rationality of this sort of person (the commodity owner) to declare these structures as universally human.

For Marx, on the other hand, it was not the thought processes of individuals that are fundamental, but rather the social relations in which the
individuals are embedded at any given time. As he pointedly formulated it in the *Grundrisse*:

> Society does not consist of individuals, but expresses the sum of relationships and conditions in which these individuals stand to one another. (MECW, 28:195)

These relations impose a certain form of rationality to which all individuals must adhere if they wish to maintain their existence within these conditions. If their actions correspond to this rationality, then the activity of individuals also reproduces the presupposed social relations.

Let's make this connection clear using an obvious example. In a society based upon commodity exchange, everyone must follow the logic of exchange if he or she wants to survive. It is not merely the result of my "utility maximizing" behavior if I want to sell my own commodities dearly and buy other commodities cheaply. Rather, I have no other choice (unless I am so rich that I can choose to ignore exchange relationships). And since I am not capable of seeing an alternative, maybe I even perceive my own behavior as "natural." When the majority behaves in the manner indicated, they also reproduce the social relations that commodity exchange is based upon, and therefore the compulsion for every individual to continue to behave accordingly.

Marx therefore does not account for his value theory on the basis of the considerations of those engaged in exchange. Contrary to a common misunderstanding, his thesis is not that the values of commodities correspond to the labor-time socially necessary for their production because those engaged in exchange want it to be so. On the contrary, Marx maintains that people engaged in exchange in fact do not know what they’re actually doing (*Capital*, 1:166-67).

With value theory, Marx seeks to uncover a specific social structure that individuals must conform to, regardless of what they think. The question posed by Marx is therefore completely different than that posed by classical or neoclassical economics; in principle, Adam Smith observes a single act of exchange and asks how the terms of exchange can be determined. Marx sees the individual exchange relation as part of a par-
ticular social totality—a totality in which the reproduction of society is mediated by exchange—and asks what this means for the labor expended by the whole society. As he made clear in a letter to his friend Ludwig Kugelmann, a “proof” of the labor theory of value is not the point:

The chatter about the need to prove the concept of value arises only from complete ignorance both of the subject under discussion and of the method of science. Every child knows that any nation that stopped working, not for a year, but let us say, just for a few weeks, would perish. And every child knows, too, that the amounts of products corresponding to the differing amounts of needs demand differing and quantitatively determined amounts of society’s aggregate labour. It is self-evident that this necessity of the distribution of social labour in specific proportions is certainly not abolished by the specific form of social production; it can only change its form of manifestation. Natural laws cannot be abolished at all. The only thing that can change, under historically differing conditions, is the form in which those laws assert themselves. And the form in which this proportional distribution of labour asserts itself in a state of society in which the interconnection of social labour expresses itself as the private exchange of the individual products of labour, is precisely the exchange value of these products. (MECW, 43:68)

If, under the conditions of commodity production, the distribution of privately expended labor onto individual branches of production is mediated by the value of commodities (conscious regulation or a distribution predetermined by tradition do not exist), then the interesting question is how this is at all possible, or stated more generally, how privately expended labor becomes a component part of the total labor of society. So value theory doesn’t “prove” that an individual act of exchange is determined by the productively necessary quantity of labor. Rather, it should explain the specific social character of commodity-producing labor—and Marx does this mainly beyond the first seven pages of Capital discussed above, which traditional Marxism as well as many critics of Marx take to be the most important for Marx’s value theory.
3.3 Abstract Labor:
Real Abstraction and Relation of Social Validation

To understand what's behind the specific social character of commodity-producing labor, we have to deal with the distinction between “concrete” and “abstract” labor. In most accounts of Marx’s value theory, this distinction is briefly mentioned, but its importance is frequently not understood. Marx himself pointed out its fundamental significance:

I was the first to point out and to examine critically this twofold nature of the labour contained in commodities. As this point is crucial to an understanding of political economy, it requires further elucidation. (Capital, 1:132)

What does this mean? If the commodity has a twofold character, as use value and value, then commodity-producing labor must also have a twofold character: it is labor that not only produces a use value, but also value. (Here it is important to note that not all labor has a twofold character, but rather only commodity-producing labor.)

Qualitatively different “concrete labors” produce qualitatively different use values: carpentry produces a chair; linen weaving produces a linen sheet. When we “learn a trade,” we study the particularities of a concrete activity; when we observe a person working, then we observe him or her executing a concrete act of labor.

Value, however, is not constituted by a particular concrete labor or through a particular aspect of concrete labor. Every act of labor whose product (which can also be a service) is exchanged produces value. As values, the commodities are qualitatively equal; therefore the various acts of labor that produce values must have the status of qualitatively equal human labor. Carpentry does not produce value as carpentry (as carpentry, it produces a chair); rather, it produces value as human labor, whose product is exchanged with other products of human labor. So carpentry produces value precisely as labor abstracted from its concrete manifestation as carpentry. Marx therefore speaks of value-producing labor as “abstract labor.”
Abstract labor is thus not a special type of labor expenditure, such as monotonous assembly-line labor as opposed to artisanal, content-rich carpentry. As labor constituting use value, monotonous assembly-line labor is just as much concrete labor as carpentry. Assembly-line labor (just like carpentry) only constitutes value as equal human labor, abstracted from its concrete character, or, in short: assembly-line labor and carpentry only constitute value as abstract labor.

As “crystals” of abstract labor, commodities are “values.” Marx therefore describes abstract labor as the “value-forming substance” or as the “substance of value.”

The “substance of value” as a figure of speech has frequently been understood in a quasi-physical, “substantialist” manner: the worker has expended a specific quantity of abstract labor and this quantity exists within the individual commodity and turns the isolated article into an object of value. That things are not so simple should already be apparent by the fact that Marx describes the value-objectivity as a “spectral objectivity” (gespenstige Gegenständlichkeit, Capital, 1:128, corrected translation); in the manuscript in which Marx noted revision of the first edition of Capital preparing the second edition, “Ergänzungen und Veränderungen zum ersten Band des ‘Kapital,’” he even speaks of a “purely fantastic objectivity” (rein phantastische Gegenständlichkeit). If the “substantialist” understanding of Marx’s value theory were accurate, then it would be difficult to understand what is supposed to be “spectral” or “fantastic” about the objectivity of value.

Let us deal with abstract labor in more detail. Abstract labor is not visible, only a particular concrete labor is visible, just as the concept of “tree” isn’t visible: I’m only capable of perceiving a concrete botanical plant. As with the term “tree,” abstract labor is an abstraction, but a completely different kind of abstraction. Normally, abstractions are constituted in human thought. We refer to the commonalities among individual examples and then establish an abstract category, such as “tree.” But in the case of abstract labor, we are not dealing with such a “mental abstraction” but with a “real abstraction,” by which we mean an abstraction that is carried out in the actual behavior of humans, regardless of whether they are aware of it.

During the act of exchange, an abstraction is made from the use value of commodities, and the commodities are equated as values. (Of course,
the individual buyer only purchases a commodity because he is interested in its use value, and, as the case may be, refrains from exchange if he does not desire this use value; however, if exchange occurs, then the commodities are equated as values.) Only with the equation of commodities as values does an abstraction from the particularity of the labor that produces them actually occur, and it only counts as value-forming “abstract” labor. So the abstraction really occurs, independent of what the participating commodity owners think.

This point is not always made clearly by Marx. He speaks of abstract labor as “an expenditure of human labour power, in the physiological sense” (Capital, 1:137). The reduction of various types of labor to labor in a physiological sense, however, is a purely mental abstraction, to which any kind of labor can be subjected, regardless of whether it produces a commodity. Furthermore, this formulation suggests that abstract labor has a completely non-social, natural foundation, and has therefore accordingly provoked “naturalistic” interpretations of abstract labor. In other passages, however, Marx expresses himself clearly concerning the non-naturalistic foundation of abstract labor. He writes in the revised manuscript to the first edition (Marx-Engels Gesamtausgabe or MEGA, II.6:41; Marx included this sentence in the French translation):

The reduction of various concrete private acts of labor to this abstraction of equal human labor is only carried out through exchange, which in fact equates products of different acts of labor with each other.

Accordingly, it is exchange, that consummimates the abstraction that underlies abstract labor (independent of whether the people engaged in exchange are aware of this abstraction). But then abstract labor cannot be measured in terms of hours of labor: every hour of labor measured by a clock is an hour of a particular concrete act of labor, expended by a particular individual, regardless of whether the product is exchanged. Abstract labor, on the other hand, cannot be “expended” at all. Abstract labor is a relation of social validation (Geltungsverhältnis) that is constituted in exchange. In exchange, the concrete acts of expended labor count as a particular quantum of value-constituting abstract labor, or are
valid as a specific quantum of abstract labor, and therefore as an element of the total labor of society.

This validation (Geltung) of privately expended concrete labor as a particular quantum of value-constituting abstract labor implies three different acts of reduction:

1. Individually expended labor-time is reduced to socially necessary labor-time. Only labor that is necessary for the production of a use value under average conditions counts as value-constituting. The level of average productivity, however, is not determined by an individual producer, but rather upon the entirety of producers of a use value. The average changes constantly and only becomes apparent in the act of exchange; only then does the individual producer find out to what extent his individually expended labor-time corresponds to the socially necessary labor-time.

2. In traditional Marxism, a technologically determined "socially necessary labor-time" was usually understood as the sole determinant of value-constituting labor. Whether the use values produced faced a corresponding monetary demand appeared to play no role in the determination of their value. However, Marx noted that in order to produce a commodity one has to produce not only a use value, but rather "use-values for others, social use-values" (Capital, 1:131). If a greater quantity of a use value, a linen sheet for example, is produced beyond that of the (monetary) demand existing in society, then this means that "too great a portion of the total social labour-time has been expended in the form of weaving. The effect is the same as if each individual weaver had expended more labour-time on his particular product than was socially necessary" (Capital, 1:202).

Only labor-time expended under the average existing conditions of production as well as for the satisfaction of monetary social demand constitutes value. To what extent the privately expended labor was actually necessary to satisfy demand depends on the one hand upon the amount of this demand and on the other hand upon the volume of
production of other producers—both of which first become apparent in exchange.

3. Individual acts of labor expenditure are not only distinguished from one another in their concrete character (as carpentry, as tailoring, etc.) but in regard to the qualifications of the required labor power. "Simple labour-power" is "the labour-power possessed in his bodily organism by every ordinary man, on the average, without being developed in any special way" (Capital, 1:135). Exactly what counts as a qualification belonging to the simple average labor force and whether, for example, reading and writing or computer skills are counted among these qualifications varies from country to country and among different cultural epochs but remains firmly established within a particular country at a particular point in time. The labor of more highly qualified forces of labor counts as "skilled" labor, and is regarded as constituting a greater magnitude of value than simple average labor. To what degree a particular amount of skilled labor constitutes more value than the same amount of simple labor is again only apparent in exchange. Not only do the qualifications of the labor force emphasized by Marx play a role in the quantitative relation; also decisive are processes of social hierarchization that are reflected, for example, in the fact that "female professions" have a lower status than "male professions," which in turn influences how activities are considered "simple" or "skilled."

The extent to which privately expended individual labor counts or is effectively valid as value-constituting abstract labor is the result of these three reductions that take place simultaneously in the act of exchange.

3.4 "Spectral Objectivity": A Production or Circulation Theory of Value?

Value-objectivity (Wertgegenständlichkeit) is not possessed by commodities as objectifications of concrete labor, but rather as objectifications of abstract labor. However, if as we just outlined, abstract labor is a relation
of social validation existing only in exchange (where privately expended labor counts as value-constituting, abstract labor) then value also first exists in exchange. What’s more, value is not at all a property that an individual thing possesses in and of itself. The substance of value, that constitutes the foundation of this objectivity, is not inherent to individual commodities, but is bestowed *mutually* in the act of exchange.

The most emphatic statement on this by Marx can be found in his revised manuscript for the first edition. There he states that when a coat is exchanged for linen, then both are “reduced to an objectification of human labor per se.” However, it should not be forgotten that

> none of both is in and of itself value-objectivity [Wertgegenständlichkeit], they are this only insofar as that this objectivity is commonly held by them. Outside of their relationship with each other—the relationship in which they are equalized—neither coat nor linen possess value-objectivity or objectivity as conglomerations of human labor per se. (MEGA, 2.6:30)

As a consequence,

a product of labor, considered in isolation, is not value, nor is it a commodity. It only becomes value in its unity with another product of labor. (MEGA, 2.6:31)

With this we also come closer to the “phantom-like” (better translated: spectral) character of value-objectivity that Marx spoke of at the beginning of *Capital*. The substance of value is not something that two commodities have in common in the way, for example, that both a fire truck and an apple have the color red in common. Both are red even in isolation from each other, and when they are placed alongside each other, we detect that they have something in common. The substance of value, and thus the value-objectivity, is something only obtained by things when they are set into relation with one another in exchange. It’s as if the fire truck and apple were only red when they’re actually standing alongside one another, and had no color when separated (the fire truck in the fire station, the apple hanging from an apple tree).
Normally, objective properties of things are inherent, regardless of their relationship to other things. We do not regard properties of things that only exist in a specific connection to other things as objective, inherent properties of those things, but rather as relations. If soldier A is commanded by staff sergeant B, then A is a subordinate and B is a superior. The property of being a subordinate or a superior arises from the specific relationship between A and B within a military hierarchy, but are not inherent to them as people outside of this hierarchy.

In the case of value, a property that only exists within a relationship appears to be an objective property that is also inherent outside of this relationship. If we attempt to locate this objectivity outside of the exchange relationship, it eludes our grasp. The objectivity of value is quite literally a “spectral objectivity.”

Traditional Marxism was also taken in by the illusion that value was a property of an individual commodity. The substance of value was understood in a “substantialist” way, as a property of an individual commodity. The magnitude of value was also understood as a property of an individual commodity and it was believed to be determined, independent of the exchange process, by the quantity of socially necessary labor-time expended in the production of the commodity. Conceptions that emphasized the importance of exchange were accused of advancing a circulation theory of value, and thus of approaching value by placing emphasis on a supposedly negligible aspect.

However, even the question as to whether value and the magnitude of value are determined in the sphere of production or in the sphere of circulation (the sphere of buying and selling) is the result of a fatal reduction. Value isn’t just “there” after being “produced” someplace. In the case of a bread roll, one can at least pose the question (even if the answer is somewhat obvious) as to where it comes into existence—in the bakery or in the act of purchase over the sales counter. But value isn’t a thing like the bread roll, but rather a social relationship that appears as a tangible characteristic of a thing. The social relationship that is expressed in value and the magnitude of value is constituted in production and circulation, so that the “either/or” question is senseless.
The magnitude of value is not yet determined before exchange, but also does not emerge coincidentally during the exchange act. It is the result of the threefold reduction, outlined in the previous section, of privately expended individual labor to abstract labor. The magnitude of value of a commodity is not simply a relationship between the individual labor of the producer and the product (which is what the “substantialist” conception of value amounts to), but rather a relationship between the individual labor of producers and the total labor of society. Exchange does not produce value, but rather mediates this relation to the total labor of society. However, in a society based upon private production, this act of mediation can only occur in the act of exchange, and nowhere else.\cite{11}

Prior to being exchanged, the magnitude of value can only be more or less estimated. This estimation is also responsible for whether a commodity producer takes up production. But the estimation of a value is in no way the same thing as the existence of this value, a painful fact that some producers experience firsthand.

These considerations should make it clear that Marx’s use of the term “substance of value” should not be understood in a “substantialist” way, in the sense that a substance is present within individual things. Objectivity as value is not a tangible aspect of an individual commodity. Only with the act of exchange does value obtain an objective value form, thus the importance of the “value form analysis” for Marx’s theory of value.\cite{12}

### 3.5 The Form of Value and Money
(Economic Determinate Form)

With the analysis of the form of value, Marx claims to accomplish something that has no counterpart in bourgeois economy. He writes:

Everyone knows, if nothing else, that commodities have a common value-form, which contrasts in the most striking manner with the motley natural forms of their use-values. I refer to the money form. Now, however, we have to perform a task never even attempted by bourgeois economics. That is, we have to show the origin [Genesis] of this money-form, we
have to trace the development of the expression of value contained in the value-relation of commodities from its simplest, almost imperceptible outline to the dazzling money-form. (*Capital*, 1:139)

This sentence has been frequently understood as if Marx’s intent is to trace, at a high level of abstraction, the historical emergence of money, starting from the simple exchange of products. But if that were the case, then his attempt to distinguish himself from bourgeois economics by claiming to accomplish something that the latter never even attempted would be completely exaggerated. Even in Marx’s time such abstract-historical sketches belonged to the standard repertoire of economists.13

But let us recall that in the first sentence of *Capital* Marx clearly states that his intent is not to analyze a precapitalist commodity, but rather the commodity as it exists in capitalism (see the beginning of section 3.1 above). Hence it is clear that with the phrase “origin” (*Genesis*) he does not mean the historical emergence of money, but rather a conceptual relationship of development. He is not concerned with the historical development of money (not even in a completely abstract sense) but with a conceptual reconstruction of the connection between the “simple form of value” (a commodity expressing its value through another commodity) and the “money form.” This is a relation that exists within contemporary capitalism. More generally, the question is whether money in a commodity-producing society is merely a practical aid (which is otherwise basically dispensable) or whether money is in fact a necessity.

In Marx’s time, this question was not a merely academic one. Various socialist tendencies, in devising alternatives to capitalism, aspired to a society in which private commodity production would continue to exist, but money would be abolished and replaced by certificates of entitlement to goods or slips denoting hours of performed labor. The proof that money and commodity production are inseparable was also intended as a critique of such tendencies.

In his analysis of money, Marx proceeds in three steps.

1. First, in a form analysis (meaning that form determinations are analyzed while disregarding the commodity owners), the general equiva-
lent form (respectively, the money form) of value is developed as a necessary form of value.

2. Subsequently, the activity of commodity owners is dealt with: actual money, which must correspond to the determinants of the general equivalent form, first emerges on the basis of such activity.

3. Finally, the various functions that money assumes within “simple circulation” (meaning the circulation of commodities and money, abstracting from capital) are developed.

Bourgeois economics usually begins its treatments of money by enumerating the various functions of money. That money exists at all is explained with the argument that without money it would be rather difficult to organize exchange, that is, the justification occurs at the level of the activity of commodity owners. Form-analytical considerations about the connection between value and value-form cannot be found at all within bourgeois economics, yet this connection is exactly the “Genesis” that Marx spoke of in the above quotation.

However, many Marxists have difficulties understanding Marx’s analysis. Substantialist interpretations, by bourgeois economists, normally place emphasis upon the functions of money and are generally at a loss to deal with the conceptual development of the money form and money. But even non-substantialist interpretations often ignore the differences between the first two steps: the conceptual development of the money form, and the conceptual development of actual money. We’ll deal with the first step in this subsection and handle steps 2 and 3 in the following two subsections.

Marx begins the analysis of the value form with the examination of the “simple, isolated, or accidental form of value.” This is the expression of a commodity’s value in another:

\[ x \text{ commodity } A = y \text{ commodity } B \]
Or Marx’s famous example:

20 yards of linen = 1 coat

The value of the linen is expressed, and the coat serves as a means of expressing the value of the linen. Both commodities thus play completely different roles in the form of expression of value, and Marx assigns different terms to these roles. The value of the first commodity (linen) is expressed as “relative value” (meaning in relation to something else); this commodity is in the relative form of value. The second commodity (the coat) serves as an “equivalent” for the value of the first commodity; it is in the equivalent form of value.

In the simple expression of value, only the value of one commodity can be expressed at any given time; only the value of the linen is expressed—as a specific quantity of coat. The value of the coat, on the other hand, is not expressed. However, the expression of value—“20 yards of linen are worth one coat”—also implies the reverse: “One coat is worth 20 yards of linen.” Now the coat is in the relative form of value and the linen is in the equivalent form.

Value cannot be grasped within an individual use value; it only obtains a tangible form in the expression of value: the commodity that appears as the equivalent form (commodity B) now has the status of being the embodiment of the value of the commodity in the relative form of value (commodity A). But considered in isolation, the second commodity is just as much a use value as the first commodity. However, within the expression of value, the second commodity in the equivalent form plays a specific role. It has the status not only of being a particular use value, but also counts simultaneously, in its manifestation as use value, as a direct embodiment of value: “Hence, in the value-relation, in which the coat is the equivalent of the linen, the form of the coat counts as the form of value” (Capital, 1:143).

The value of the linen only acquires an objective form because the value assumes the form of the coat; the value of the linen becomes tangible, visible, and measurable as a specific quantity of coat. Marx summarizes this as follows:
The internal opposition between use-value and value, hidden within the commodity, is, therefore, represented on the surface by an external opposition, i.e. by a relation between two commodities such that the one commodity whose own value is supposed to be expressed, counts directly only as a use-value, whereas the other commodity, in which that value is to be expressed, counts directly only as exchange value. (*Capital*, 1:153)

Value is something purely social; it expresses the equal social validity of two completely different concrete acts of labor, and it is therefore a specific social relationship. This social relationship acquires, in the equivalent form, the shape of a thing; in our example, value appears to be directly identical with a coat. The coat counts as an embodiment of value, but only within the form of expression of value. That the coat has different properties within the form of expression of value than it does outside of it is still clear in the case of the coat. With regard to money, however, this is no longer obviously visible.

The simple form of value expresses the value of commodity A in an object, makes it tangible and measurable, but is nonetheless insufficient, since it only relates commodity A to a single commodity, commodity B, and does not yet relate commodity A to all other commodities.

If we now consider the value relationship of commodity A (in this case the linen) to all other commodities, then we obtain the “total or expanded form of value”:

20 yards of linen are worth 1 coat,
20 yards of linen are worth 10 lbs. of tea,
20 yards of linen are worth 40 lbs. of coffee, etc.

The value of the linen now stands in relation to the entire world of commodities (and not just to a single commodity), and at the same time it becomes clear that the value of the commodity is indifferent toward the particular form of use value in which it is expressed: a coat, but also tea and coffee and so forth, can serve as the embodiment of the value of the linen. The value of the linen remains the same, whether it is manifested in a coat or in coffee. Thus it also becomes clear that the quantitative
exchange relationship is in no way coincidental, a fact that was not yet visible in the case of the simple form of value.

However, the expanded form of value is also inadequate: the expression of the value of commodity A is incomplete and without closure. Furthermore, the expressions of value are heterogeneous; we have multiple specific equivalent forms that mutually exclude each other.

The total form of value is nothing other than a series of simple forms of value. But every single one of these simple forms of value contains within itself its own inversion. If we reverse the series of simple forms of value, we acquire the “general form of value”:

1 coat is
10 lbs. of tea are
40 lbs. of coffee are
\[ \text{worth } 20 \text{ yards of linen} \]

The value of commodities is now expressed in a \textit{simple} and \textit{unified} form, because a \textit{single} commodity, the “general equivalent,” serves as an expression of value for all other commodities. So this form performs a decisive function:

Through its equation with linen, the value of every commodity is now not only differentiated from its own use-value, but from all use-values generally, and is, by that very fact, expressed as that which is common to all commodities. \textit{By this form, commodities are, for the first time, really brought into relation with each other as values.} (Capital, 1:158; emphasis added)

The value-objectivity (\textit{Wertgegenständlichkeit}) is not an inherent property of any \textit{individual} commodity but rather a social characteristic, because it expresses the relationship of individual commodities (or, respectively, the individual acts of labor producing these commodities) to the entire world of commodities (respectively, the total labor of society). Thus, not only does value necessitate an \textit{objective} form of value, it necessitates a form of value that expresses this social character, and this is first accomplished with the \textit{general form of value}. 
The specific social character of the general form of value is shown in a further quality that distinguishes the general form of value from both the elementary and the expanded form of value. "In both cases, it is the private task, so to speak, of the individual commodity to give itself a form of value." But now:

The general form of value, on the other hand, can only arise as the joint contribution of the whole world of commodities. A commodity only acquires a general expression of its value if, at the same time, all other commodities express their values in the same equivalent; and every newly emergent commodity must follow suit. It thus becomes evident that because the objectivity of commodities as values is the purely "social existence" of these things, it can only be expressed through the whole range of their social relations. (Capital, 1:159; emphasis added)

What becomes evident here is something that is not clear to everyday consciousness, but is first apparent as a result of scientific analysis: the social character of value expresses itself in a specifically social form of value. Value and magnitude of value—which are actually not properties of an individual commodity—can now, with the help of the general equivalent, be expressed so that it seems as if they were simple properties of individual commodities. Qualitatively, the value of coats (or tea, coffee, etc.) consists in their equality with linen: the value of a coat (or 20 lbs. of tea, 40 lbs. of coffee, etc.) is 20 yards of linen.

The money form is ultimately distinguished from the general form of value merely by the fact that the equivalent form has coalesced "by social custom" with the specific natural form of a particular commodity (historically this has been gold, and to a lesser extent silver). This commodity thus becomes the "money commodity."

The reference to "social custom" makes it clear that with the money form, we find ourselves at the level of the activity of commodity owners. Up to now, commodity owners have not been discussed. The commodity form of the product of labor and the exchange relations of commodities have been observed, but not the exchange acts of commodity owners.
3.6 Money and Exchange  
(Activity of Commodity Owners)

Only with the second chapter of Capital does Marx deal explicitly with commodity owners and their activity: as commodity owners, people are merely representatives of commodities. For that reason, the commodity had to be examined first.

If one considers only the exchange relation of commodities, then every commodity effectively serves as a manifestation of the value of every other commodity for which it can be exchanged. The commodity owner, however, does not wish to exchange his commodity for any arbitrary commodity, but rather for definite, particular commodities. For him, the commodity he owns is not a use value, and its exchange should provide him with the use value he requires. The commodity owner therefore would like to treat his own commodity like a general equivalent that can be directly exchanged for all other commodities. But since every commodity owner wants this from his commodity, no commodity is a general equivalent. For this reason, the commodity owners in the process of exchange are apparently faced with an irresolvable problem. Marx summarizes the actual solution rather incisively:

In their difficulties our commodity-owners think like Faust: “In the beginning was the deed.” (“Im Anfang war die Ta”—Goethe, Faust, Part 1, Scene 3.) They have therefore already acted before thinking. The natural laws of the commodity have manifested themselves in the natural instinct of the owners of commodities. They can only bring their commodities into relation as values, and therefore as commodities, by bringing them into an opposing relation with some other commodity, which serves as the universal equivalent. We have already reached that result by our analysis of a commodity. [The form analysis undertaken by Marx in the first chapter that we dealt with in the previous section.—M.H.] But only the action of society can turn a particular commodity into the universal equivalent. The social action of all other commodities, therefore, sets apart the particular commodity in which they all represent their values. The natural form of this commodity thereby becomes the socially recog-
nized equivalent form. Through the agency of the social process it becomes the specific social function of the commodity which has been set apart to be the universal equivalent. It thus becomes—money. (Capital, 1:180–81; emphasis added)

The analysis of the commodity revealed the necessity of the general equivalent form. In order to behave toward things as commodities, that is, to relate things to each other as values, the owners of commodities must relate their commodities to a general equivalent. Their "social act" must make a commodity into a general equivalent and thus real "money."

The people engaged in exchange are "free" in their activity, but as commodity owners they must follow the laws imposed by the nature of commodities. As Marx already observed in the preface to Capital, individuals only enter the stage insofar as they are "personifications of economic categories" (1:92). If the analysis begins by considering the activity and consciousness of commodity owners, then the social context that needs to be explained has been taken for granted. This is the reason why it was necessary for Marx to distinguish between the form determinants of the commodity and the activity of commodity owners, and initially depict the form determinants as such, since they are the given preconditions for the activity and considerations of the commodity owners—who then continually reproduce these conditions through their own activity (see section 3.2 above).

Really existing money is a result of the activity of commodity owners, but in no way rests upon a silent contract, as John Locke, one of the most important philosophers of the early bourgeois era, thought. Money is not simply introduced with deliberate consideration in one go, which is what economists who argue that money is used as a means of simplifying exchange assume. Commodity owners, emphasized Marx, "already acted before thinking"; their activity necessarily brings about money as a result—otherwise, it is not at all possible to relate commodities to one another as values.14

So money is in no way merely a helpful means of simplifying exchange on the practical level and an appendage of value theory on the theoretical level. Marx's value theory is rather a monetary theory of value: without the value form, commodities cannot be related to one another
as values, and only with the money form does an adequate form of value exist. “Substantialist” conceptions of value, which attempt to establish the existence of value within individual objects, are pre-monetary theories of value. They attempt to develop a theory of value without reference to money. Both the labor theory of value of classical political economy and the theory of marginal utility of neoclassical economics are pre-monetary theories of value. The usual “Marxist” value theory that alleges that value is already completely determined by “socially necessary labor-time” is also a pre-monetary value theory.15

3.7 The Functions of Money, the Money Commodity, and the Contemporary Monetary System

Marx distinguishes between three fundamental functions of money that arise from the “simple circulation” of commodities and money. If one considers the total process of capitalist production and reproduction, there are additional functions of money (see chapter 8 below).

The first function of money consists of serving as the general measure of value; the value of every commodity is expressed as a specific quantity of money.

Commodities are values as “crystals” of their common substance, abstract labor. So it is not money that makes commodities commensurable but the common reference to abstract labor. Marx therefore notes: “Money as a measure of value is the necessary form of appearance of the measure of value which is intrinsic to commodities, namely labour-time” (Capital, 1:188).

But with this, the question is also posed as to why value cannot be immediately expressed in labor-time, or why money does not directly represent labor-time. Marx very briefly deals with this question in Capital in a footnote and refers to his earlier text of 1859, A Contribution to the Critique of Political Economy. In this text he wrote:

Commodities are the direct products of isolated independent individual kinds of labour [vereinzelter unabhängiger Privatarbeiten], and through
their alienation [Entäußerung] in the course of individual exchange they must prove that they are general social labour, in other words, on the basis of commodity production, labour becomes social labour only as a result of the universal alienation [Entäußerung] of individual kinds of labour. (MECW, 29:321–22; emphasis added)

That which can be measured by a clock is always just the individual private labor expended before the act of exchange. As noted in the section concerning abstract labor, only with exchange can it be shown how much of this privately expended labor was actually value-constituting and thus valid as an element of social labor-time. Value-constituting labor-time (or the magnitude of abstract labor) cannot be measured before, only during exchange—and when the values of all commodities are set into relation with one another, then this act of measuring can only be conducted by means of money. For that reason, Marx can speak of money as the “necessary” form of appearance of the immanent value measurement by labor-time: value-constituting labor-time cannot be otherwise measured except through money.16

The expression of the value of a commodity in money terms is its price. To specify the price of a commodity there must be a clear understanding of what functions as money (gold, silver, a paper note), but the money must not necessarily be at hand, it merely serves here in an “imaginary or ideal capacity” (Capital, 1:190).

The magnitude of value of a commodity is expressed in its price—and this is the only possibility for the magnitude of value to be expressed. If the magnitude of a commodity’s value changes, if there is a new relationship of the individually expended labor to the total labor of society, then the price of the commodity also changes. However, the reverse is not the case: not every price is the expression of a specific magnitude of value, nor does every change in price indicate a change in the magnitude of value.

Things “without value,” meaning those things that are not products of “abstract labor,” can also have a price. That can be the case for both economically irrelevant issues (for example, the price of a noble title) and for quite important ones (for example, the price of a stock option, that is, the price of the right to buy a stock under guaranteed conditions).
The change in price of a single commodity can also indicate a change in its magnitude of value, but it can also be a sign of especially fortunate or unfortunate circumstances (momentary shifts in supply and demand) under which the commodity is sold. The simultaneous change in the price of all commodities, that is, a change in the price level, generally does not indicate a change in all magnitudes of value, but rather a change in the value of money: the devaluation of money is reflected in a general rise in prices (inflation), while a rise in money’s value is reflected in a general decline in prices (deflation).

In what follows, it is mostly assumed that commodities are exchanged “at their true values.” This means that we disregard momentary fluctuation and the prices of commodities are assumed to be adequate expressions of their value. However, in section 7.2 we will see that under normal capitalist conditions, commodities are not exchanged at their values, meaning that normal prices are not solely the expression of the magnitude of value of commodities.

The second function of money is as a means of circulation, which mediates the actual exchange of commodities. In exchange, the owner of Commodity A (for example, a weaver who produces linen), whose commodity does not represent a use value to him, wants to transform it into Commodity B (for example, a chair) whose use value is of interest to him. He sells the linen for 20 euros and subsequently purchases a chair with these 20 euros. Marx describes this process as the “metamorphosis of the commodity” (for the weaver, the linen has been transformed into a chair).

The material substance of this metamorphosis is the substitution of one use value by another. Marx also speaks of the “social metabolism.” The result is the same as that of a simple act of swapping linen for a chair. However, the form of this process is completely different, and this difference of form is precisely the point here.

As distinct from a simple swap, the metamorphosis of the commodity is mediated by money; the process has the form Commodity—Money—Commodity (C—M—C), or concretely from the standpoint of the weaver, linen—money—chair.

What is for the weaver the first act of the process, C—M, the transformation of the linen into money, is for the possessor of the money who
buys the linen the conclusion of the metamorphosis of his original commodity. The purchase of the chair presents itself to the weaver as the conclusion of his commodity's metamorphosis, and in contrast, for the carpenter who sells the chair, this act is the beginning of the metamorphosis of the commodity.

The metamorphoses of commodities are labyrinthine and never-ending: in their totality they constitute the circulation of commodities. The simple exchange of products—use value for use value—is in contrast merely a two-sided affair, which is exhausted in the individual act of exchange. The circulation of commodities and the exchange of products are thus fundamentally different.

The fact that the interrelation of various individual acts is established through money in the circulation of commodities (as opposed to mere exchange of products), also means reciprocally that the intervention of money also contains the possibility of the interruption of this cohesion. If the weaver sells his linen, but holds on to the money without buying anything, then not only is the metamorphosis of his own commodity, the linen, interrupted, but so is the metamorphosis of other commodities (for example, the chair). The possibility of interruption and therefore of crisis is inherent to the mediation of the social circulation of matter through money. But for the mere possibility of crisis to become an actual crisis, a series of further circumstances must come into play (discussed in chapter 9).

The metamorphosis of the commodity, C—M—C, begins with one commodity and ends with a different commodity of the same value but a different use value. The commodity emanates from a particular commodity owner and returns to him in a different physical form. To that extent, the commodity is part of an act of circulation. The money that mediates this circulation, on the other hand, traces an orbit: during the first act, C—M, the commodity owner receives money, but only in order to spend it again (under normally functioning circumstances of commodity circulation) and complete the subsequent act of M—C. In its function as a means of circulation, money constantly remains within the sphere of circulation. However, merely symbolic money is sufficient for circulation, since the commodity owners are only concerned with the commodities
that they can buy with it, and money can be substituted for mere "symbols of value" that are themselves without value (such as paper bills).

Only with its third function does money ultimately function as real money; as the magnitude of value money does not actually have to be present, and ideal money is sufficient; as a means of circulation money has to be present, but symbolic money is sufficient. Only as a unity of magnitude of value and means of circulation is money really money, that is, an independent embodiment of value, and this implies a series of new determinations.

Whereas the various commodities in their material existence represent particular use values and their value ("abstract wealth") can only be imagined, real money is the "material being of abstract wealth" (MECW, 29:358, corrected translation). Whatever material object functions as money counts as a thing of value in its immediate material existence. As a thing of value, it can be exchanged at any time for any other commodity, and can thus be transformed into any use value. Real money is therefore "the material symbol of physical wealth" (MECW, 29:358).

Real money, meaning money as an independent manifestation of value, has very specific functions. It functions as a hoard, as a means of payment, and as universal money.

As a hoard, money is withdrawn from circulation. It no longer mediates the circulation of commodities, but instead serves as an independent manifestation of value outside the process of circulation. In order to hoard, a commodity owner sells commodities without engaging in a subsequent act of purchase. The goal of the sale is to hold on to money as an independent manifestation of value. Every commodity producer, in order not to postpone his own purchases until his commodities are sold (or in order to ensure against his failure to sell a commodity), is dependent upon a smaller or greater hoard of money.

In its function as a means of payment, money also acts as an independent manifestation of value. If a commodity is not paid for at the moment of purchase but later, then the buyer becomes a debtor, and the seller becomes a creditor. Money does not function here as a means of circulation that mediates a purchase but as a means of payment that concludes a purchase that has already happened. (The phrase "means of
payment” is used by Marx only in this sense; in contemporary everyday usage, as well as in contemporary economics, any money used to pay for purchase is described as a means of payment, regardless of whether payment is made immediately or later.) If money is used as a means of circulation, then the commodity owner initially engages in an act of sale, C—M. He then subsequently makes a purchase, and consummates M—C. In the case of money being used as a means of payment, the sequence is reversed: first the commodity owner makes a purchase, then he engages in a sales act to obtain the money for meeting his payment obligations. Acquiring money as the independent manifestation of value is now the function of the sale.

Finally, money functions as world money on the world market. On the world market, money can be used as a means of circulation in order to mediate a sale, as a means of payment, for concluding a sale, or as “the universally recognized social materialization of wealth” (Capital, 1:24) when not used for sale or payment, but to transfer wealth from one country to another (for example, after a war).

In Capital, Marx assumes that money always has to be linked to a particular commodity. During Marx’s time, gold played the role of this “money commodity.” But even back then, it was hardly the case that pieces of gold were widely used in everyday commerce; small sums were paid with silver or copper coins, larger sums with “banknotes.” Banknotes were originally issued by individual banks, which promised to honor the notes in gold. Ultimately, banknotes were only issued by state central banks, which also promised to honor the notes in gold. As a rule, the central banks of individual countries were not allowed to print an arbitrary amount of banknotes, but rather had to ensure that the banknotes were covered by a proportionate amount of gold reserves. Gold was hardly circulated, but the paper money in circulation acted as a representation of gold.

At the end of the Second World War, at a conference in Bretton Woods, New Hampshire, an international currency system was agreed upon that was still based upon a gold standard. But only the U.S. dollar was covered by gold, thirty-five dollars corresponding to an ounce of gold. All other currencies had a fixed exchange rate to the dollar. However, the obligation
to honor dollars in gold was not valid for private individuals, only for state central banks. At the end of the 1960s, it had become clear that the massive amount of dollars in circulation had rendered the coupling of the dollar to gold a fiction. At the beginning of the 1970s, the gold standard was formally abolished, as were fixed currency exchange rates.

Since then, there is no longer any commodity that functions at a national or international level as a money commodity. Now, money is essentially the paper money issued by the state central banks, and there is nothing for which this paper money can be redeemed. Of course, one can still buy gold with this paper money, but now gold is just another commodity like silver or iron, and no longer plays the special role of a money commodity, neither legally nor by default.

Marx could not imagine a capitalist money system existing without a money commodity, but the existence of such a commodity is in no way a necessary consequence of his analysis of the commodity and money. Within the framework of the analysis of the commodity form, he developed the form-determinations of the general equivalent, and the analysis of the exchange process yields the result that commodity owners do in fact have to relate their commodities to a general equivalent. But that the general equivalent must be a specific commodity was not proven by Marx, merely assumed. That which serves as a general equivalent (whether an actual physical commodity or merely paper money) cannot be determined at the level of simple commodity circulation (for a more extensive analysis, see Heinrich 1999, 233). Only when the capitalist credit system is taken into consideration (see section 8.2 below) does it become clear that the existence of a money commodity is merely a historically transitional state of affairs, but does not correspond to “the capitalist mode of production, in its ideal average” that Marx sought to analyze (see section 2.1 above).

3.8 The Secret of the Fetishism of Commodities and Money

The final section of the first chapter of Capital is titled “The Fetishism of the Commodity and Its Secret.” The term “commodity fetish” has enjoyed a certain amount of propagation since Marx’s time, but is not
always used and understood in a way referring to phenomena dealt with by Marx. Marx did not use the term “commodity fetish” to describe how people in capitalism place an undue importance upon the consumption of commodities, or that they make a fetish out of particular commodities that serve as status symbols. The term also does not refer to making a fetish of brand names. There is no “secret” behind possessing expensive commodities as status symbols that needs to be deciphered.

It is often the case that the commodity fetish is characterized solely as a state of affairs in which the social relationships between people appear as social relationships between things (the relationships of those engaged in exchange appear as a value relationship between the products being exchanged), so that social relationships become the property of things. But if we leave it at that, then fetishism appears to be merely a mistake: people ascribe false properties to the products of their labor and fail to see that “in reality” a social relationship between people lies behind the relationship between things. Fetishism would therefore be a form of “false consciousness” that merely conceals the “real conditions.” If that were the case, then this false consciousness must disappear once the real conditions have been explained. In this reductionist conception of the commodity fetish, important points of Marx’s analysis are lost. We will therefore deal with Marx’s argumentation in great detail. To offer a better overview, the following is divided into lettered sections.

a. One must first pose the question, where can we pinpoint the “secret” that Marx speaks of in the section heading and that he seeks to decipher? Marx commences with the following:

A commodity appears at first sight an extremely obvious, trivial thing. But its analysis brings out that it is a very strange thing, abounding in metaphysical subtleties and theological niceties. (Capital, 1:163, emphasis added)

The commodity is thus only a “very strange” and mysterious thing not in terms of everyday perception, but as a result of the analysis
A table, for example, is “an ordinary, sensous thing. But as soon as it emerges as a commodity, it changes into a thing, which transcends sensuousness” (Capital, 1:163). This translation is wrong, Marx literally writes that as a commodity it is changed “into a sensuous extrasensory thing” (sinnlich übersinnliches Ding).

To our everyday perception, a table is above all a particular use value. As a commodity, it also has a particular value. Both aspects are not at all mysterious to our spontaneous, everyday consciousness. And the notion that the magnitude of value depends upon the volume of expended labor-time may be accepted or contested, but the circumstance itself is in no way mysterious. The “sensuous extrasensory” character of the commodity is first made clear by analysis: the analysis shows that the value-objectivity of the commodity cannot be expressed within the commodity itself (and is therefore “extrasensory,” that is, a “spectral objectivity”) but only in another commodity that effectively acts as a direct embodiment of value. The substance of value, abstract labor, was demonstrated to be just as elusive as the objectivity of value. The analysis has thus unearthed a number of disconcerting findings.

b. Marx then asks, “Whence, then, arises the enigmatic character of the product of labour, as soon as it assumes the form of commodities?” and formulates the following answer:

Clearly it arises from this form itself. The equality of the kinds of human labour takes on a physical form in the equal objectivity of the products of labour as values; the measure of the expenditure of human labour-power by its duration takes on the form of the magnitude of the value of the products of labour; and finally the relationships between the producers, within which the social characteristics of their labours are manifested, take on the form of a social relation between the products of labour.

The mysterious character of the commodity-form consists therefore simply in the fact, that the commodity reflects the social characteristics of men’s own labour as objective characteristics of the products of labour themselves, as the socio-natural properties [gesellschaftliche Natureigenschaften]
of these things. Hence it also reflects the social relation of the producers to the sum total of labour as a social relation, which exists apart from and outside the producers. (Capital, 1:164-65; emphasis added)

In every social form of production characterized by a division of labor, people stand in a particular social relationship to one another. In commodity production, this social relationship between people appears as a relationship between things: it is no longer people who stand in a specific relationship with one another, but commodities. People’s social relationships therefore appear to them as “socio-natural properties” of the products of labor: what Marx means can be demonstrated using the example of value: on the one hand it is clear that “value” is not a natural property of things like weight or color, but on the other, for the people in a commodity-producing society, it seems as if things in a social context automatically possess “value” and therefore automatically follow their own objective laws to which humans must submit. Under the conditions of commodity production, things take on a life of their own, for which Marx only finds a suitable comparison in the “misty realm of religion”: in religion, it is the products of the human mind that take on a life of their own, whereas in the world of commodities it is the “products of men’s hands” that do so:

I call this the Fetishism which attaches itself to the products of labour, as soon as they are produced as commodities, and is therefore inseparable from the production of commodities. (Capital, 1:165)

c. If fetishism “attaches itself” to commodities, then it must be something more than simply a case of false consciousness; the fetishism must also express an actual situation. And, under the conditions of commodity production, producers do not relate to one another in a direct, social way; they first enter into a relationship with one another during the act of exchange—through the products of their labor. That their social relationship to one another appears as a social relationship between things is therefore not at all an illusion. To those
engaged in exchange, writes Marx, “the social relations between their private labours appear as what they are, i.e. they do not appear as direct social relations between persons in their work, but rather as material [dinglich] relations between persons and social relations between things” (Capital, 1:166, emphasis added).

That things have social characteristics under the conditions of commodity production is in no way wrong. What is wrong is the assumption that they possess these social characteristics automatically, in every social context. Fetishism does not consist of products of labor being regarded as objects of value—in bourgeois society, products of labor that are exchanged are in fact objects of value—but this objectivity of value is considered a “self-evident and nature-imposed necessity” (Capital, 1:175).

d. What must interest commodity owners first and foremost is the value of their commodities. These values are the objective expression of a social connection produced by humans, but not transparent to them.

Men do not therefore bring the products of their labour into relation with each other as values because they see these objects merely as the material integuments of homogeneous human labour. The reverse is true: by equating their different products to each other in exchange as values, they equate their different kinds of labour as human labour. They do this without being aware of it. (Capital, 1:166, emphasis added)

Commodity producers produce their social connection precisely not as a result of a particular awareness concerning the connection between value and labor, but independent of such awareness. It would therefore be completely wrong to understand Marx’s theory of value as claiming that people exchange their commodities according to their values because they know how much labor is contained within the individual products. It is Marx’s intent to show that humans act without being aware of the conditions of their action.

e. This unconsciously produced fetishism is not simply a state of false
consciousness, but rather possesses material force. Whether my individually expended labor is recognized as a component of the total labor of society, and to what degree, is not information provided to me directly by society, but by the value of my commodity in exchange. And my prosperity or misfortune depends upon this information. But the magnitudes of value of commodities vary continually, independently of the will, foreknowledge and actions of the exchangers. *Their own movement within society has for them the form of a movement made by things, which far from being under their control, in fact control them.* (Capital, 1:169–70; emphasis added)

The value of commodities is an expression of an overwhelming social interaction that cannot be controlled by individuals. In a commodity-producing society, people (all of them!) are under the control of things, and the decisive relations of domination are not personal but “objective” (*sachlich*). This impersonal, objective domination, submission to “inherent necessities,” does not exist because things themselves possess characteristics that generate such domination, or because social activity necessitates this mediation through things, but only because people relate to things in a particular way—as commodities.

f. That this objective domination (*sachliche Herrschaft*) and the objectification of social relationships to properties of things is a result of a specific behavior of humans is not transparent to everyday consciousness. For this spontaneous consciousness, “forms which stamp products as commodities . . . possess the fixed quality of natural forms of social life” (*Capital*, 1:168; emphasis added). In addition to everyday consciousness, classical political economy (and modern neoclassical economics) labors under the delusion of these forms. However, this delusion is not the result of the subjective delusion of individual economists. Marx emphasizes that this delusion is itself based upon a specific objectivity and therefore has a certain necessity:

The categories of bourgeois economics consist precisely of forms of this
kind. They are forms of thought which are socially valid, and therefore objective [gesellschaftlich gültige, also objektive Gedankenformen], for the relations of production belonging to this historically determined mode of social production, i.e. commodity production. (*Capital*, 1:169; emphasis added)

These “objective forms of thought” constitute what individual economists perceive as a matter of course to be the immediate, obvious object of political economy. In this passage it becomes clear what Marx meant by “critical exposé of the system of the bourgeois economy” in his letter to Lassalle (quoted in section 2.2): the critique of bourgeois categories is not an abstract exercise in the philosophy of science, but is rather inseparable from it.

The various schools of political economy do not engage in debate concerning the form-determinations of their subject matter, but rather concerning the content of these form-determinations. In contrast, Marx renders a fundamental critique, a critique applied to the foundations of bourgeois economics: Marx criticizes forms that are always presupposed by bourgeois economics:

Political economy has indeed analysed value and its magnitude, however incompletely, and has uncovered the content concealed within these forms. But it has never once asked the question why this content has assumed that particular form, that is to say, why labour is expressed in value, and why the measurement of labour by its duration is expressed in the magnitude of the value of the product. (*Capital*, 1:173–74)

Because value-objectivity (*Wertgegenständlichkeit*) is a result of very specific behavior by human beings, namely producing things privately and exchanging them, this correlation is not apparent to either spontaneous, everyday consciousness or to political economists. Both see in the commodity form a “socio-natural property” (*gesellschaftliche Natureigenschaft*). In this respect, both everyday consciousness and the science of economics remain imprisoned within this fetishism. As Marx makes this fetishism recognizable, he not only provides the
foundations for a critique of consciousness and the fields of knowledge, he makes clear that social relationships must in no way remain the way they are: the rule of value over humans is not a natural law of society, but the result of a very specific behavior by humans, and this behavior can—at least in principle—be changed. A society without commodities and money is conceivable.

g. Fetishism is not limited to the commodity. It is also inherent to money. Money as an independent manifestation of value possesses a special form of value: it exists in the form of the general equivalent; all other commodities do not. The special commodity (or piece of paper) that functions as money can only function as money because all other commodities relate to it as money. However, the form of money appears to be a “socio-natural property” of this commodity.

What appears to happen is not that a particular commodity becomes money because all other commodities express their values in it, but, on the contrary, that all other commodities universally express their values in a particular commodity, because it is money. The movement through which this process has been mediated vanishes in its own result, leaving no trace behind. Without any initiative on their part, the commodities find their own value-configuration ready to hand, in the form of a physical commodity existing outside but also alongside them. (Capital, 1:187; emphasis added)

What applies to the commodity also applies to money: only as a result of the specific behavior of commodity owners does money possess its specific properties. But this mediation is no longer visible, it “vanishes.” For that reason, it seems as if money possesses these properties in and of itself. In the case of money, whether it is a money commodity or a piece of paper, a social relationship appears as an objective property of a thing. And just as with the commodity, social actors do not have to be aware of the mediating relation in order to act: “Anyone can use money as money without necessarily understanding what money is” (Theories of Surplus Value, MECW 32:348).
h. The "absurdity" [Verrięktheit] (Capital, 1:169) of this reification of social relationships is increased in the case of money. If products of labor are turned into commodities, they acquire a value-objectivity in addition to their physical objectivity as use values. This value-objectivity, as illustrated above, is a "spectral objectivity," apparently just as objective as use value but nonetheless not tangible or visible within the individual object. But money now counts as an independent manifestation of value. Whereas commodities are useful objects that additionally have the objective status of being values, money is directly a "value-thing" (Wertding). In the first edition of volume 1 of Capital, Marx makes this point clear using a nice example:

It is as if, in addition to lions, tigers, hares and all other really existing animals which together constitute the various families, species, subspecies, etc. of the animal kingdom, the animal would also exist, the individual incarnation of the entire animal kingdom. (MEGA II.5:37; emphasis in original)

That "the animal" walks about among the various concrete animals is not only factually impossible, it is also logical nonsense: the abstract category is placed at the same level as the individuals from which the abstract category is derived. But money is the real existence of this absurdity.

i. In bourgeois society, people's spontaneous consciousness succumbs to the fetishism of the commodity and money. The rationality of their behavior is always a sort of rationality within the framework set by commodity production. If the intentions of social actors (that which they "know") are made the point of departure of analysis (as is the case in neoclassical economics and various sociological theories), then that which individuals "don't know," the framework that preconditions their thought and activity, is blanked out of the analysis from the very start. Proceeding from this consideration, not only can we criticize a considerable portion of the foundations of bourgeois economics and sociology but also a popular argument of worldview
Marxism: namely that there exists a social subject (the working class), which, on the basis of its particular position in bourgeois society, possesses a *special* ability to see through social relationships. Many representatives of traditional Marxism expressed the need to “take the standpoint of the working class” in order to understand capitalism. But in doing so, they overlooked the fact that workers (just like capitalists) in their spontaneous consciousness are also subject to the delusions of the commodity fetish. In the next few chapters, we’ll see that the capitalist mode of production brings forth other inversions and absurdities to which both workers and capitalists succumb. One cannot therefore speak of a *privileged* position of perception occupied by the working class—but one also cannot make the claim that fetishism is in principle impenetrable.
4. Capital, Surplus Value, and Exploitation

4.1 The Market Economy and Capital: The “Transition from Money to Capital”

In the first three chapters of Capital, Marx deals with the commodity and money, and is explicit that capital does not yet enter the picture. This has led some authors to the understanding that these chapters depict, at a very high level of abstraction, a precapitalist society of “simple commodity production,” a mode of production in which commodity- and money-relations dominate, but with no, or only a very undeveloped, capital. This notion presupposes that commodities are exchanged according to their (labor-) values because the producers are aware of the quantity of their own labor expenditure and that of their partners in exchange. The most prominent representative of this view was Friedrich Engels, who, a few years after Marx’s death, formulated it in his appendix to the third volume of Capital and therefore influenced many Marxists. But this idea is problematic in many respects:

As a historical assertion: exchange has been practiced for thousands of years, and coin money has existed at least since 500 B.C.E., but commodity- and money-relations in precapitalist eras were always “embedded” in other relations of production; they were never comprehensive,
and the economy was not dominated by them. This is only the case with the spread of the capitalist mode of production.

As a theoretical concept: it is precisely Marx's intent to show that the determination of exchange through value does not rest upon a conscious appraisal of the labor-time expended, that those engaged in exchange do not know what they're doing, but rather their social cohesion is consummated "behind their backs" (See section 3.8, d and e above).

As an explanation of the first three chapters of Capital this misunderstands what it is that Marx depicts: "simple circulation." By this Marx understands the circulation of commodity and money as a form of social interaction dominating the entire economy—but from a qualified and restricted viewpoint: Marx abstracts from the existence of capital. Marx is not analyzing precapitalist relations that existed at some time in the past, but rather capitalist, contemporary conditions (the first sentence of Capital points this out, as emphasized above), while disregarding capital. That capital is disregarded is not an arbitrary whim of the theoretician, and it is also not a didactic consideration. A specific aspect of reality is expressed in this abstraction: simple circulation appears "as that which is immediately present on the surface of bourgeois society" (Grundrisse, MECW, 28:186); the economy, for all intents and purposes, seems to consist only of acts of buying and selling.

At first glance, the economy seems to fall into three large, separate domains:

1. The sphere of production: at the respective level of technological possibility, goods are produced and services rendered;

2. The sphere of circulation: goods and services are exchanged, usually not directly, but for money;

3. The sphere of consumption: goods and services are consumed, either by individuals for the purpose of immediate survival (such as groceries, clothing, etc.) or within the process of production as a means of production (such as machines or raw materials) to make more products.
In the process, the perception emerges that the sphere of consumption has solely to do with the needs of consumers and the sphere of production with purely technical possibilities, so that only circulation remains as the actual sphere of economic activity.

The reduction of the economy to the sphere of circulation has considerable consequences. The sphere of circulation is only concerned with buying and selling, with transactions, therefore, in which—at least in principle—people face each other as free and equal partners, and in which, insofar as the commodities exchanged have the same value, nobody is fleeced, robbed, or exploited. If the people are in fact not so equal, because, for example, one person owns a lot and the other person owns very little, then that may be a regrettable circumstance, but it does not count against the “market economy.” Disparities in ownership have no real theoretical relevance in the many liberal theories that sing the praises of the market economy. They appear to be as extraneous to the process of buying and selling, and therefore to the market economy as, for example, the physical infirmities of the participants in exchange. From this perspective, the “market” appears to be a neutral entity for the distribution of goods and the satisfaction of needs, as an efficient (and completely non-bureaucratic) institution for the transmission of information concerning what is needed, where, and in what quantity. According to this perspective, if the institution called “the market” does not function so well, this can only be the result of unfortunate marginal conditions or external disturbances that have to be removed by the state. Not only is such market euphoria presented as incontrovertible truth in (almost) every economics textbook, university economics departments, and the business sections of the large daily newspapers; after 1989, it was also adopted in different variations by many former leftists. The market and capital were sometimes even juxtaposed as downright opposing forces, and political conclusions drawn accordingly: whether in the form of the demand to curb the power of large corporations to help implement the beneficial effects of “the market” or in the form of “market socialism,” in which capitalist businesses would be replaced by workers’ cooperatives that would then briskly compete with one another “on the market.”
So whether the market and capital merely exist in an external loose relationship, or whether there is an intrinsic, necessary connection between the two, is therefore not merely an academic question. Rather, the answer has direct political consequences.

If the circulation of commodities and money depicted in the first three chapters of Capital is not something self-contained and independent of capital (as expressed by Marx in his use of the phrase “surface” to describe simple circulation), then this dependence must already make itself felt. Rather similar to the relationship between the commodity and money, an intrinsic, necessary connection between money and capital must be revealed.

Let us shortly recapitulate three essential steps in the course of depiction of the commodity and money:

1. The commodity was analyzed. It presents itself as having a twofold nature: as a use value and as value. Its value-objectivity turns out to be something special: it is a purely social characteristic, which is not inherent to an individual commodity, but only exists as a common property of commodities that are exchanged (hence the “spectral” character of value).

2. For this spectral value to become tangible, it requires an independent manifestation. It obtains this in money. Money is therefore not supplemental to the world of commodities or a mere expedient; money is necessary to express the value of commodities, to comprehensively relate commodities to one another as values (hence the characterization of Marx’s theory of value as a “monetary theory of value”). This also means that commodity production and money are inseparable. One cannot, as some socialists thought, abolish money while retaining private commodity production.

3. Money is an independent manifestation of value, but as the measure of values and as the means of circulation it does not appear as such; money serves here as a mere expedient. Only as a unity of the magnitude of value and means of circulation (“money as money”) does
money become an independent manifestation of value. It is not only an intermediary that constantly disappears (in the case of the means of circulation) or that doesn’t even have to be physically present (as in the case of the measure of values), it now becomes an end in itself: not just value, but the independent and constant manifestation of value, money, is to be retained and multiplied.

However, as the case of hoarding shows, the independence and imperishability of money is limited: if money is withdrawn from circulation to be hoarded, it ultimately becomes a useless object. But if it is thrown into circulation, meaning if it is used to purchase commodities, the independent manifestation of value is lost.

Within simple circulation, money is an independent and durable manifestation of value, but this independence and durability is nowhere to be seen; it cannot really exist at the level of simple circulation. If it is therefore correct that within simple circulation, the existence of commodities necessitates the existence of an independent expression of value (money), but this independence of value cannot exist within simple circulation, it thus follows that simple circulation cannot be something independent. Rather, it must exist as a moment within and result of an underlying process—namely the capitalist process of valorization, as will soon be shown.

If money is in fact an independent and durable expression of value, then it must enter into the process of circulation, it cannot exist separately—but at the same time, it cannot lose its independence and durability, as is the case with the act of simple purchase M—C, with the subsequent consumption of the commodity. The independence and durability of value is only assured when money consummates the movement M—C—M. But this movement—the purchase of a commodity and the subsequent sale of this commodity for the identical sum of money—does not yield any advantage. An advantage is only gained with the movement M—C—M’, where M’ is greater than M. In this movement (Marx describes it as “the general formula for capital”) money not only retains its independent form, it also increases itself, so that it really does become the aim of the whole process. Only as capital does the independent form
of value finally find its adequate and appropriate expression, or, to put it another way, the permanent existence of value, encompassing the entire economy, is only possible when value executes the movement of capital, \( M \rightarrow C \rightarrow M' \). With the movement \( M \rightarrow C \rightarrow M' \), however, we leave the realm of simple circulation; now we have to examine the substance and necessary conditions of this movement.\(^{20}\)

4.2 The "Occult Quality" of Value: \( M \rightarrow C \rightarrow M' \)

Let's first take a look once again at the sequence \( C \rightarrow M \rightarrow C \), which commanded our attention in part 2.2 during the discussion of money's different functions. The commodity producer has produced commodity \( C \) with a particular use value, he sells this commodity and uses the money thus obtained to buy a different commodity with a different use value. The money is definitely spent; the aim of the process is the consumption of the second commodity. The measure of the whole process is set by the needs of the producers, and the process is concluded with the satisfaction of these needs.

Now let’s take a look at the sequence \( M \rightarrow C \rightarrow M \). The sequence consists of the same elements, \( M \rightarrow C \) and \( C \rightarrow M \), as the sequence \( C \rightarrow M \rightarrow C \), only the order differs: now a commodity is purchased in order to sell it afterward. Money is the starting point and endpoint of the process. Amounts of money can only differ from one another quantitatively, not qualitatively. The figure of circulation only yields an advantage if the amount of money at the end of the sequence is greater than the amount of money at the beginning of the sequence, when it is therefore a case of \( M \rightarrow C \rightarrow M' \), where \( M' \) is greater than \( M \). Now the point of the whole process is the quantitative increase of the original amount of money. The money is not spent (as it is in the case of \( C \rightarrow M \rightarrow C \)); rather, the money is advanced. It is given out only in order to take in a larger amount afterward.

A sum of value that performs this movement is capital. A mere sum of value in and of itself, whether in the form of money or a commodity, is not yet capital. A single act of exchange also does not make capital out of a particular sum of value. Only the linking of various exchange processes
with the purpose of increasing the initial sum of value yields the typical movement of capital: capital is not merely value, but rather self-valorizing value, meaning a sum of value that performs the movement $M\rightarrow C\rightarrow M'$. The increase in value obtained with the movement of capital, the difference between $M$ and $M'$, is what Marx calls surplus value. In classical political economy, and in modern economic theory, this concept does not exist. As we shall see later, surplus value is not merely a different name for profit or gains, but rather something different. However, at this time, there is no need to concern ourselves with this difference (on the exact meaning of profit, see chapter 7; on the meaning of profit of enterprise, see chapter 8).

The only aim of the movement of capital is the increase of the sum of value that is initially advanced. But this purely quantitative increase knows neither measure (why should a 10 percent increase be deemed insufficient while considering a 20 percent increase as sufficient?) nor limit (why should the process end after a singular movement, or even ten such movements?). Unlike the simple commodity circulation of $C\rightarrow M\rightarrow C$, which has an aim outside of the sphere of circulation (the acquisition of use values for the purpose of satisfying needs) and that finds its measure in the need and its limit in the satisfaction of that need, the movement of capital is an end in itself, unlimited and ceaseless.

If one considers commodity production while abstracting from capital, one might get the idea that the aim of commodity production and exchange is the general satisfaction of need. Everyone satisfies his or her own needs by producing a commodity that satisfies the needs of others. This commodity is then exchanged for money in order to use this money to purchase a commodity that satisfies one's needs. Bourgeois economics (both classical political economy as well as modern neoclassical economic theory) understands commodity production in this way.

Capitalist commodity production (the generalization of commodity production first occurs historically under capitalist conditions) is, however, not geared toward the satisfaction of needs, but to the valorization of value. The satisfaction of needs only occurs as a by-product, insofar as it coincides with the valorization of capital. The aim of capitalist production is surplus value and not the satisfaction of needs.
Up till now, we have spoken of capital, but not yet of capitalists. Someone who possesses a large sum of value is not yet a capitalist; someone is only a capitalist when he or she actually disposes of this sum of value as capital, making the movement of capital as an end in itself a subjective aim:

It is only insofar as the appropriation of ever more wealth in the abstract is the sole motive behind his operations, that he functions as a capitalist, i.e., as capital personified and endowed with consciousness and a will. Use-values must therefore never be treated as the immediate aim of the capitalist; nor must the profit on any single transaction. His aim is rather the unceasing movement of profit-making. (Capital, 1:254; emphasis added)

A person is therefore a "capitalist" only when he or she is "capital personified," meaning that his or her activity follows the logic of capital (limitless and ceaseless valorization), and for this it is not necessary that this person be the owner of capital. And only in this sense, capitalists as capital personified, is the term capitalist used in the following chapters. Capitalists are "personifications of economic relations" or "economic character masks" (Capital, 1:179). This is similar to what we observed with regard to the activity of commodity owners (see sections 3.2 and 3.6): a person behaves like a commodity owner or capitalist insofar as his or her behavior follows a specific rationality. This rationality is a result of the form-determination of the economic process (the economic form-determination of the commodity or capital, respectively). As people's behavior conforms to this specific rationality, they reproduce the preconditioned economic form-determinant. In Marx's presentation, the economic form-determination must be analyzed first, before the behavior of people is addressed.

An actual owner of money might pursue other goals besides the valorization of capital, but then he no longer operates exclusively as a "capitalist." The fact that the individual capitalist constantly attempts to increase his profit is not rooted in any psychological trait like "greed." Rather, such behavior is compelled by the competitive struggle among capitalists.
The individual capitalist, insofar as he or she wishes to remain a capitalist, requires increasing returns not to satisfy an increase in personal consumption, which in the case of large capital constitutes a tiny fraction of total returns, but primarily to modernize production facilities or produce new products when there is no longer demand for older ones. If a capitalist forgoes modernization or change, he or she will soon be bankrupt. In section 5.2, we will return to these coercive laws of competition.

With the passage of time, the external form of appearance of the capitalist has undergone some changes. The “free entrepreneur” of the nineteenth century, who managed his business and not uncommonly founded a family dynasty, was largely replaced in the twentieth century, at least in the larger businesses, by the “manager,” who often owned only a smaller share of stock in the business he managed. Both are capitalists in Marx’s sense, that is, personifications of capital. They both dispose of a sum of value as capital.

If the capitalist merely executes the logic of capital, then it is not he, but rather capital, self-valorizing value, that is the “subject” of the process. Marx refers to capital in this regard as the “automatic subject” (Capital, 1:255), a phrase that makes the paradox clear: on the one hand, capital is an automaton, something lifeless, but on the other, as the “subject,” it is the determining agent of the whole process.

As the “dominant subject” (übergreifendes Subjekt) (Capital, 1:255) in the process of valorization, value needs an independent form and obtains it in money. Money is therefore the starting point and terminal point of the valorization process.

Money was already the independent, if inadequate, form of value within the process of simple circulation. As capital (to repeat: capital is neither money nor commodity taken by itself, but rather the limitless and ceaseless movement of appreciation, M—C—M'), value not only possesses an independent form, it is now “a self-moving substance, which passes through a process of its own,” a rather curious subject with extraordinary powers:

In truth, however, value is here the subject of a process, in which, while constantly assuming the form in turn of money and commodities, it changes its own magnitude. . . . By virtue of being value, it
has acquired the occult quality to add value to itself. (Capital, 1:255: corrected translation)

It seems as if value is able to increase itself (some banks use the advertising slogan “let your money work for you,” which is characteristic of this illusion). Now let’s examine what this “occult quality” rests upon.

4.3 Class Relations: The Worker “Free in the Double Sense”

So far, we have only formally determined what capital is: a sum of value that valorizes itself, that executes the movement M—C—M’. But the question remains, how is this movement at all possible, or to put it another way, where does surplus value come from?

Within the sphere of circulation, valorization would only be possible if commodity C is purchased below its value or sold above its value. In this case, the sum of value advanced can be increased, but one capitalist’s gain is only possible if another capitalist takes a loss of the same amount. At the level of society as a whole, the sum of value has not changed; it has simply been redistributed, just as if a simple act of theft had occurred.

Capitalist profit would therefore be explained as a violation of the laws of commodity production. If we assume the normal conditions of commodity production and circulation, then the “exchange of equivalents” applies: the commodities that are exchanged for one another have the same magnitude of value, the price paid is an adequate expression of the magnitude of value of the commodity and does not express a coincidentally greater or lesser magnitude; the commodities are exchanged “at their true values.” If surplus value is a normal phenomenon of capitalist commodity production and not just an exception, then its existence must be explained under the presupposition of an “exchange of equivalents,” and this is exactly the question that Marx poses.

Marx’s deliberations can be summarized as follows: if equivalent exchange is assumed, then surplus value cannot be constituted in circulation, not in the first act of circulation, M—C, nor in the second act, C—M’. A change must take place between both acts. But outside of the
sphere of circulation, the use value of the purchased commodity is merely consumed. Thus the owner of money must find a commodity on the market whose use value possesses the quality of being a source of value, so that the use of this commodity creates value, and more value than the commodity itself costs.

Such a special commodity exists. It is the commodity called labor-power. The term labor-power refers to the ability of humans to perform labor, and under the conditions of commodity production, the expenditure of labor can be a source of value. If I sell my labor-power, then I relinquish this ability to someone else for a specific period of time. In the case of selling labor-power, the entire person is not sold (I do not become a slave), but it is also not the case that labor is sold. Labor is the application of labor-power. That only the ability to labor was sold, and not labor itself, is shown among other things by the situation where raw materials are temporarily missing and the owner of money cannot use the labor-power he has purchased.

That the owner of money encounters labor-power as a commodity on the market is not a matter of course. Two conditions have to be satisfied for this to be the case. First, there must be people who act as free proprietors of their own labor-power, who are therefore in a position to sell their labor-power. A slave or a serf is therefore not in such a position, since the sellers of labor-power must be legally free people.

But if these people have means of production at their disposal and can produce and sell their own commodities or can subsist from the products of their own labor, then they will probably not sell their labor-power. They are only driven to sell their labor-power, and this is the second condition, if they do not own any means of production, if they are therefore not only legally free but also free of substantive property. Then they actually treat their labor-power as a commodity. The existence of workers who are “free” in this double sense is an indispensable social precondition of capitalist production.

Thus a specific relationship between social classes underlies the capitalist mode of production: on the one hand, there must exist a class of property owners (owners of money and means of production), and on the other hand there must exist a class of largely propertyless, but legally free
workers. This relationship between social classes is usually what is meant when Marx speaks not of capital, but of the capital-relation.

When Marx deals with "classes," he is doing so without developing a full "class-theory." The term refers simply to positions within the social process of production, in our case to owners of means of production and those who are excluded from this ownership, respectively. However, with regard to these classes defined by their social position, Marx does not assume that the individual members of a class automatically possess a common "class consciousness" or even that they exhibit a common "class activity." At this level of depiction, "class" is in the first instance a purely structural category; whether class means anything more has to be examined in each respective concrete context. When modern sociology—against Marx—claims to discover the end of class society within capitalism, then it usually cites as evidence the lack of class consciousness, on the basis of possibilities for upward mobility or the "individualization" of society. It therefore makes use of a criterion that Marx does not at all apply to the structural concept of class predominant in Capital. However, traditional Worldview Marxism often drew the conclusion of a common consciousness arising from a structurally common social position and tended toward assuming a common social agency. Thus, instead of conceiving "class rule" as a structural relationship between social classes, it was conceived as an intentional relationship, where one class imposes its will upon another class.

The sheer existence of this class relationship—owners of money and means of production on the one hand, propertyless but legally free workers on the other—is in no way "natural," but the result of a historical development. This historical development belongs to the prehistory of capitalism. In order to continue with the analysis of the fundamental structures of capitalism, it is sufficient to take the results of this prehistory as given. For that reason, the historical process of emergence of the worker as "free" in a double sense is sketched at the end of the first volume of Capital under the title "The So-Called Primitive Accumulation." Using England as an example, Marx shows that this was an extremely violent and bloody process, which resulted in no way "from the market" but was actively assisted by the state (we already hinted at this process in
sections 1.1 and 1.2). However, “primitive accumulation” is not a historically singular process: in the course of the global spread of capitalism, similar developments occur.

4.4 The Value of the Commodity Labor-Power, Surplus Value, and Exploitation

To understand the emergence of surplus value—in spite of the exchange of equivalents—we have to concern ourselves in greater detail with the commodity called labor-power. Like all other commodities, labor-power has a use value and a value. The use value of labor-power consists of its application, that is to say, labor itself. Labor expenditure creates new value, which prior to the act of exchange can only be estimated. The extent to which the labor expenditure was actually value-constituting is revealed on the basis of the reduction that occurs in exchange (see section 3.3 above).

Marx views the value of labor-power as being “determined, as in the case of every other commodity, by the labour-time necessary for the production, and consequently also the reproduction, of this special article.” Every individual requires for his or her own maintenance a range of means of subsistence in the broadest sense, not just food, but also clothing, shelter, etc. Marx then concludes: “Therefore the labour-time necessary for the production of labour-power is the same as that necessary for the production of those means of subsistence; in other words, the value of labour-power is the value of the means of subsistence necessary for the maintenance of its owner” (Capital, 1:274; emphasis added).

Since the continued existence of the capital-relation requires that labor-power is continuously offered for sale on the market, the value of labor-power must also cover the costs that are necessary for a worker’s entire family, including the costs of education for the worker’s offspring.

If the traditional nuclear family, in which the male hires himself out as a wage laborer while the woman takes over the reproductive labor, is socially predominant, the value of the (male) labor-power has to cover the costs of reproduction. If, in contrast, the usual case is one in which two people are
employed, this also influences the value of labor-power: the costs of reproduction rise, since a part of the reproductive labor no longer occurs in the household, and corresponding products and services have to instead be purchased or provided by the state, which in the latter case then have to be financed by higher taxes. The costs of reproduction for a family must no longer be covered by a single labor-power, but by the sum of value of both labor-powers, so that the value of individual labor-power—despite rising costs of reproduction—will tend to sink.

As with every commodity (see section 3.7 above), price changes for the commodity labor-power do not always express a change in value, but might also reflect the momentarily favorable or unfavorable situation for the sale of this commodity (a temporary scarcity or a temporary surplus of labor-power). Actual changes in value of labor-power can result from two sources: from a change in the value of the means of subsistence necessary for the reproduction of the laborer or from a change in the extent of the amount of means of subsistence necessary for the reproduction of the laborer. The extent of "necessary means of subsistence" differs among the various countries and historical periods, and depends upon what is normally counted among the necessary requirements of life, as well as which claims workers are able to assert. Since it is not necessarily the case that capitalists willingly concede such claims, it is the class struggle between workers and capitalists that determines the value of labor-power, as specific claims are imposed—or not. In this context, Marx speaks of a "historical and moral element" (Capital, 1:275) that enters into the determination of the value of labor-power, which is not the case with other commodities.24

However, there is a further difference between the commodity of labor-power and other commodities, which Marx does not address. The value of means of production used to produce a normal commodity forms part of its value, as well as the new value added by the labor that creates the finished product from these means of production. This is not the case with the commodity labor-power: its value is determined solely by the value of the means of subsistence that have to be purchased on the market. Reproductive labor carried out in the household (housework, childrearing), primarily by women, does not form a part of the value of
labor-power. Feminist authors have levied the accusation at Marx that the critique of political economy has a “blind spot” (for example, the programmatic essay by Claudia von Werlhof, 1978). However, it is not Marx’s determination of the value of the commodity labor-power that is wrong—he gives an account of how its determination appears in capitalism—what is wrong is that he does not emphasize the distinctiveness of this determination of value, but instead attempts to prove its consistency with the determination of the value of all other commodities.

Within capitalism, the particular determination of value of the commodity of labor-power is necessary: if workers would receive considerably more than the value of the means of subsistence that they have to buy on the market, then they would in the long term no longer be without property, and would be able to at least partially free themselves from the compulsion to sell their labor-power. The restriction of the value of labor-power to the costs of reproduction is a functional necessity of capitalism, but the achievement of this restriction is in no way a matter of course. It is entirely conceivable that a well-organized working class would be able to impose correspondingly high wages by means of labor struggles. How this restriction of the value of labor-power is nonetheless imposed “automatically” in the course of the capitalist process of accumulation will be shown in section 5.6.

The difference between the (daily) value of labor-power (the sum of value required on average by labor-power for its own daily reproduction) and the new value that the individual worker is able to produce in one day under normal conditions accounts exactly for the surplus value referred to above in the case of the formula $M - C - M'$. The fact that the daily value of labor-power (the value required for its own reproduction) is lower than the value that can be created in a day by the use of labor-power (through expenditure of labor-power) is the foundation of the “occult quality” of value to create new value.

The (daily) value of labor-power thus constitutes only a portion of the value newly created through the (daily) use of labor-power. For example, if a particular sum of value is created through the expenditure of labor-power during an eight-hour workday, then this newly created value can be formally divided into the value of labor-power and the surplus value.
If the daily value of labor-power amounts to 3/8 of the value created over the course of an eight-hour workday, then one can formally state that the value of labor-power was produced in three hours and the surplus value was produced in five hours. Marx therefore refers to the first three hours as “necessary” labor-time (labor-time required to reproduce the value of labor-power) and the remaining five hours as surplus labor-time (labor-time performed by the worker beyond that necessary to reproduce his or her own labor-power). Since the workers in our example receive the value produced in three hours as payment, Marx refers to the necessary labor-time as “paid labor” and the surplus labor-time that the capitalist receives in the form of surplus value as “unpaid labor.”

The fact that the individual worker receives a lesser value from the capitalist than the value he produced through his labor is referred to by Marx as “exploitation”—a term that can be misunderstood in various respects. The term exploitation is not meant to allude to especially low wages or especially bad working conditions. Exploitation refers solely and exclusively to the fact that the producer only receives a portion of the newly produced value that he or she creates—regardless of whether wages are high or low or working conditions good or bad.

Exploitation—contrary to a widespread notion and despite corresponding statements by many “Marxists”—is also not meant to be a moral category. The point is not that something is taken away from workers that “actually” belongs to them, and that this act of taking is something morally reprehensible. The reference to “paid” and “unpaid” labor is also not intended to argue for the compensation of “all” of the labor expended.26 On the contrary: Marx emphasizes that—according to the laws of commodity exchange—the seller of the commodity labor-power receives exactly the value of his or her commodity. The fact that the buyer obtains a particular advantage from the use value of the commodity is no longer of any concern for the seller. Marx compares this to the example of an oil dealer: the dealer obtains the value of oil as payment, but does not receive anything in addition for the use value of the oil (Capital, 1:301). “Exploitation” and the existence of “unpaid labor” are not the result of an infringement of the laws of commodity exchange, but are rather in compliance with them. If one wishes to abolish exploitation, then this
cannot be accomplished through a reform of the relations of exchange within capitalism, but only through the abolition of capitalism.

4.5 The Value of Labor—An “Imaginary Expression”

Valorization rests upon the appropriation of “unpaid labor-time”: the capitalist does not pay the value of the product created by workers, but pays the value of labor power. But according to everyday consciousness, wages are regarded as payment for the labor performed: exploitation as the normal state of capitalist production is not visible. Exploitation only seems to occur if a wage is “too low.” It seems as if the wage does not express the value of labor power, but rather the value of labor.

Marx refers to the term “value of labor” as an “imaginary” and “irrational” expression (Capital, 1:677, 679). Labor—more precisely, abstract labor—is the substance and immanent measure of value. Labor creates value, but does not itself have value. If one speaks of the “value of labor” and asks how large the value of a workday of eight hours is, then one would have to answer: the eight-hour workday has a value of eight hours of labor, a statement that Marx rightly describes as “absurd” (Capital, 1:675).

However, the phrase “value of labor” is not just an absurd expression. Marx maintains that “imaginary expressions” like value of labor or value of land “arise, nevertheless, from the relations of production themselves. They are categories for the forms of appearance of essential relations” (Capital, 1:677).

The essential relation is the value of the commodity labor-power, but it appears in the form of the wage as the value of labor. Such forms of appearance “are reproduced directly and spontaneously, as current modes of thought,” whereas the essential relations “must first be discovered by science” (Capital, 1:682).

The “value of labor” is an inverted and incorrect conception, not brought about through conscious manipulation, but rather emerging from social relations. It is one of the “objective forms of thought” (objektive Gedankenformen) (Capital, 1:169; see sec. 3.8, part f) that structures the consciousness of people caught up within the conditions of capital-
ism. From the viewpoint of the worker, an eight-hour workday has to be fulfilled in order to obtain a particular wage amount. The wage seems to be the payment for this labor, an illusion further strengthened by the usual forms of wages, the "time rate" (payment according to hours of work) and the "piece rate" (payment according to the number of articles produced). In the former case, it appears as if the labor performed during a particular unit of time is compensated, and in the latter case, the labor performed for the production of a single article.

Capitalists also succumb to this illusion. It is a "spontaneously" emerging inversion of reality to which all participants (as well as the majority of economists) submit. As the wage is understood as payment for the "value of labor," all labor seems to be paid labor. Surplus labor, unpaid labor, does not seem to exist. This inversion of reality has far-reaching consequences:

All the notions of justice held by both worker and the capitalist, all the mystifications of the capitalistic mode of production, all capitalism's illusions about freedom, all the apologetic tricks of vulgar economics, have as their basis the form of appearance discussed above, which makes the actual relation invisible, and indeed presents to the eye the precise opposite of that relation. (Capital, 1:680)

The wage form constitutes the foundation for all further "mystifications" of the capital-relation, which culminate in the "Trinity Formula" (see chapter 10). But at the present point we must note that just as the spontaneous consciousness of all members of bourgeois society is subordinated to the fetish character of the commodity and money (see section 3.8), both workers and capitalists are equally subordinate to the mystification of the wage form. The inversions generated by the capitalist mode of production do not stop at the doorstep of the ruling class (the insight of this class into social relations is therefore also limited), nor does the ruled and exploited class enjoy a privileged position from which it is able to see through these inversions—the "standpoint of the working class" much vaunted by traditional Marxists is of no further help here.
5. The Capitalist Process of Production

5.1 Constant Capital and Variable Capital, the Rate of Surplus Value, the Workday

In the third chapter, the dual character of commodity-producing labor was demonstrated: concrete, use value-producing labor and abstract, value-constituting labor. The capitalist process of production also has such a dual character: it is the unity of the labor process (which produces a specific use value) and the valorization process.

Independent of social form-determinations, a distinction can be made among functional activity (labor), the object of labor (which is modified by labor), and the means of labor (the tools with which this process of modification is made possible) as elements of the labor process. The labor process occurs between humans and nature. Humans act upon nature, changing themselves at the same time, developing their own capabilities. However, the labor process never exists in a pure form as such. It always occurs with a socially determined form: as a production process based upon slave labor, as a production process of feudal serfs, as a production process of independent artisans, or as a production process of wage-laborers in capitalism.28
Within the capitalist process of production, the labor process exhibits two distinctive characteristics: first, it proceeds under the control of the capitalist (as capital personified), and second, the product of the labor process is the property of the capitalist and not of the direct producer. The capitalist has purchased the labor-power and means of production (objects of labor and means of labor). The labor process is thus a process occurring between things belonging to the capitalist. As a result, the product of labor also belongs to the capitalist. This product is a use value. But in the capitalist production process, this use value is only produced insofar as it embodies value and surplus value.

We will now examine this determinate capitalist process of production in more detail. But first, let's introduce a few fundamental concepts that are of central importance not only in this chapter, but also in those that follow.

The expression $M\rightarrow C\rightarrow M'$ is described above as "the general formula for capital." Let's take a closer look at it. Valorization is only possible because a particular commodity is purchased and consumed: labor-power. But in order to "consume" this commodity, the means of production (raw materials, machines, etc.) are necessary. As a result of the process of production, a new mass of commodities is created with a value greater than that of the capital advanced, which will be sold for $M'$.

With regard to the value of the newly produced commodities, the means of production and labor-power play completely different roles. The value of the means of production consumed in the creation of a commodity constitutes part of the value of the newly produced commodity. If means of production are completely used up in the process of production, then the value of these means of production is completely transferred to the newly produced mass of commodities. But if means of production such as tools or machines are not completely used up, then only a part of their value is transferred. If for example a particular machine has a life span of ten years, then one-tenth of its value is transferred to the mass of commodities produced within a year.\[^{29}\] The portion of capital laid out in means of production will, under normal conditions, not change value during the production process, but a portion of its value will constitute a portion of the value of the commodities produced. Marx calls this portion of capital constant capital, or $c$ for short.
Things are different with labor-power. The value of labor-power is not all transferred to the commodities produced. The value newly generated by the "consumption" of labor-power, that is, by labor expenditure, is what is transferred to the value of the newly created commodities. The different roles played by means of production and labor-power in the composition of value is illustrated by the following: if the value of the means of production changes, then there is a corresponding change in the value of the product. A change in the value of labor-power hardly has any effect upon the value of the product. How much value the worker adds to the product of labor does not depend upon the value of labor-power, but upon the extent to which the labor expended counts as value-creating, abstract labor.

The difference between the newly added value and the value of labor-power is the surplus value, or $s$. Or to put it differently, the newly added value is equal to the sum of the value of labor-power and surplus value. Marx calls the portion of capital used to pay wages variable capital, or $v$ for short. This portion of capital changes value during the production process; the workers are paid with $v$, but produce new value in the amount of $v + s$.

The value of a mass of commodities produced within a specific period of time (a day or even a year) can therefore be expressed as:

$$c + v + s$$

Here $c$ indicates the value of the constant capital consumed, that is, the value of the raw materials and the proportionate share of the value of tools and machines, insofar as they are used.

The valorization of capital results solely from its variable component. The level of valorization can therefore be measured by relating the surplus value to the variable capital: Marx calls the quantity $s/v$ the rate of surplus value. It is simultaneously also the measure of the exploitation of labor-power. The rate of surplus value is usually given as a percentage. For example, if $s = 40$ and $v = 40$, then one does not speak of a rate of surplus value of 1, but rather of a rate of surplus value of 100 percent. If $s = 20$ and $v = 40$, than the rate of surplus value amounts to 50 percent.
The rate of surplus value is an analytical category that owes its existence to the scientific understanding of the valorization process; it is preconditioned upon our knowing how valorization is achieved. But for the practical consciousness of the capitalists it is irrelevant: capitalists calculate that an advance of capital in the amount of \(c + v\) is necessary in order to realize a profit of \(s\), regardless of how this profit is created (or as the case may be, the profit is regarded as the “fruit of capital”). The capitalist’s measure of valorization is the rate of profit: \(s / (c + v)\). Profit and rate of profit, which play such a decisive role in the everyday life of capitalism, are dealt with by Marx in the third volume of Capital (see chapter 7). This is one reason among others why the reader should absolutely take all three volumes of Capital into consideration.

The length of the workday is given by the sum of necessary labor-time (in which the value of labor-power \(v\) is produced) and surplus labor-time (in which the value of surplus-value \(s\) is produced). If the value of labor-power within a particular society at a specific point in time is given, then the amount of necessary labor-time is also given—but not yet the amount of surplus labor-time.

In every society based upon class divisions, a distinction can be made between “necessary labor-time” (in which those products are produced that are necessary for the reproduction of the exploited class) and “surplus labor-time” (in which the surplus product is produced, that is, the portion of the total social product appropriated by the ruling class). Marx calls attention to a crucial difference between precapitalist and capitalist societies: “It is however clear that in any economic formation of society, where the use-value rather than the exchange value of the product predominates, surplus labour will be restricted by a more or less confined set of needs, and that no boundless thirst for surplus labour will arise from the character of production itself” (Capital, 1:345).

But this “boundless thirst of surplus labour” that characterizes the capitalist mode of production is not used by Marx as a moral reproach against individual capitalists. Although this need for surplus labor implies—since it knows no limits—that capital “takes no account of the health and the length of life of the worker” (Capital, 1:381), and therefore also implicitly accepts the destruction of labor-power, this is not a moral
failure of individual capitalists, but the logical consequence of capitalist commodity production.

If the capitalist has purchased labor-power at its daily value, then the capitalist has the right to apply labor-power over the course of a day. But the length of a workday is indeterminate: it has to be shorter than twenty-four hours so that time remains for the physical and psychic regeneration of the workers, but how much shorter than twenty-four hours is not clearly determined. If the capitalist attempts to lengthen the workday, then he is merely attempting, like all other commodity buyers, to make the most of the use value of the commodity, just as one attempts to squeeze the last bit of toothpaste from the tube. The competition among capitalists compels the individual capitalist to make ample use of his right as a buyer of maximum utilization of the commodity he has purchased.

Workers also behave according to the logic of buying and selling when they attempt to shorten the length of the workday. In order to sell their labor-power anew, they have to dispose of it in its regular condition. But if the present workday is too long, then that isn’t the case.

The capitalist with his attempts to prolong the workday, as well as the workers with their attempt to shorten it, can both invoke the laws of commodity exchange; a limit to the workday cannot be derived from these laws, and this means there is therefore

an antinomy, of right against right, both equally bearing the seal of the law of exchange. Between equal rights, force decides. Hence, in the history of capitalist production, the establishment of a norm for the working day presents itself as a struggle between collective capital, i.e. the class of capitalists, and collective labour, i.e. the working class. (Capital, 1:344)

Wherever wage laborers are not in a position to confront capital with sufficient resistance, and there is enough of a fresh supply to replace destroyed labor-power, capital strives to extend labor-time beyond all physical limits. The struggle for the normal workday, which Marx describes extensively in Capital, led in the nineteenth century in England and then in other countries to a legal limit of daily labor-time. We will address the specific role of the state in this process in chapter 11.
5.2 Absolute and Relative Surplus Value,  
the Iron Law of Competition

Capital, self-valorizing value, has no intrinsic limits to valorization, and for that reason no rate of valorization, once reached, is sufficient. With \( s/v \) as the measure of valorization, there arise two basic possibilities for increasing the valorization of capital, which Marx refers to as the production of absolute surplus value and the production of relative surplus value, respectively. (When we take into account the rate of profit as a measure of valorization in chapter 7, we will encounter a few further possibilities).

At a given value of labor-power, \( s/v \) will rise if \( s \) is increased. The quantity of surplus value produced by a single labor-power can be raised by a lengthening of the surplus labor-time, and surplus labor-time is lengthened by lengthening the workday. Marx refers to this increasing of surplus value and the rate of surplus value by lengthening the workday as the production of absolute surplus-value.

With the setting of a (legal) normal workday, the production of absolute surplus value does not yet reach its limit. A lengthening of the workday does not just occur when the number of daily working hours in increased, but also when those hours are used more efficiently: through the shortening of break times or by no longer counting certain job preparations as part of the working time. Furthermore, an increase in the level of intensity of labor (that is, a speed-up of the labor process) has the same effect as a lengthening of labor-time. An intensified workday yields a larger value product than a normal workday, just as if the workday had been lengthened. Conflicts around the use of labor-time and the intensification of labor are part of everyday business life even today.

But surplus labor-time can also be increased without changing the length of the workday or by more efficient use of labor-time: when the necessary labor-time is reduced, meaning when the value of labor-power decreases. If previously, in the case of an eight-hour workday, four hours were required in order to produce the daily value of labor-power, then four hours of surplus labor remain. If three hours now suffice for the production of the value of labor-power, then five hours of surplus labor-time
remain. Marx refers to the enlargement of surplus value and the rate of surplus value through a decrease of necessary labor-time as the production of relative surplus value.

The necessary labor-time must suffice to produce the value of the means of subsistence required by labor-power for its own reproduction. If the value of labor-power is to be fully compensated (and this must be assumed if “normal” capitalist relations are being considered), then a reduction in necessary labor-time is only possible when either the quality and quantity of the means of subsistence considered necessary is reduced (meaning the “normal” standard of living of the working class is lowered, which is difficult to implement and which cannot happen permanently) or—and this is the typical case dealt with here—if the value of these means of subsistence decreases.

The latter is the case when either the productivity of labor increases in those branches that produce means of subsistence (understood in the broadest sense, not just foodstuffs), or when the productivity increases in those branches that deliver raw materials or machines for the branches that produce means of subsistence: with cheaper means of production, the value of the means of subsistence also sinks. The production of relative surplus value implies, through an increase in the productivity of labor, a reduction in the value of means of subsistence and therefore a decrease in the value of labor-power.

Lengthening of labor-time and increasing productivity are thus the two fundamental possibilities for raising the rate of valorization of capital. But these two possibilities can only be realized through the activity of individual capitalists.

The idea that capitalists have an interest in the prolongation of labor-time is intuitively plausible: at a given level of the value of labor-power, every hour of the prolonged workday directly raises the surplus value obtained by the individual capitalist.

The case is different with the increase in the productivity of labor. If, for example, a producer of wooden tables increases productivity, then tables become cheaper. However, only to the extent that the value of tables is a component of the value of labor-power does this also cheapen the value of labor-power. The effect is minimal, and in most cases also
temporally delayed. As an *individual motive* for increasing productivity, this small and uncertain advantage is hardly sufficient.

Something completely different motivates individual capitalists to increase productivity. The extent to which individually expended labor-time counts as value-creating labor depends (among other things) upon whether the “socially necessary labor-time” (that is, the labor-time necessary at a specific socially conventional level of the productivity and intensity of labor: see section 3.1) was expended or not. If, for example, the socially necessary labor-time required for the production of a specific type of table amounts to ten hours, and if a particular producer is able to produce this table in eight hours, then he has produced the same value in eight hours that other producers do in ten hours. He can therefore sell a product of eight hours of labor as if it was the product of ten hours of labor.

This is exactly the case if a capitalist is the first to increase the productivity of labor within a particular process of production. Let’s assume that for the production of a specific good, say a particular computer, constant capital $c$ with a value of 200 is used. In addition, a workday of eight hours of direct labor is necessary to assemble the computer from its components. The daily value of labor-power is 80, and the rate of surplus value is 100 percent, so that the surplus value produced daily by an individual labor-power is also 80. The value of the product is therefore:

$$c + v + s = 200 + 80 + 80 = 360$$

Now let’s assume that a particular capitalist (initially as an individual) succeeds in reducing the direct labor-time required for the production of the computer from eight hours to four hours. The value of the computer still conforms to socially average conditions and initially remains at 360. Our smart capitalist, however, no longer has to expend variable capital in the amount of 80, but rather merely in the amount of 40. His costs are therefore that of

$$200 \text{ (constant capital)} + 40 \text{ (variable capital)} = 240$$
If he sells the product for 360, there then remains for him a surplus value of 120. So in addition to the socially conventional surplus value of 80 per computer, our capitalist realizes an extra surplus value of 40 and a rate of surplus value of 300 percent instead of 100 percent. This *extra surplus value* or as the case may be *extra profit* (see the remarks on profit in section 5.1)—and not the future cheapening of labor-power—is the capitalist’s motivation for increasing the productivity of labor.

This extra surplus value remains for the capitalist as long as the new method of production has not yet become generalized. But if the method has caught on, it means that the socially necessary labor-time for the production of a computer has decreased. If in the meantime everything else has remained constant (the value of labor-power, the value of the elements of constant capital, etc.), then the new value would be:

\[
c + v + s = 200 + 40 + 40 = 280
\]

The extra surplus value for our capitalist disappears, and his rate of surplus value is once again 100 percent.

But let us remain with the capitalist who was the first to introduce the productivity increase. He no longer requires the same amount of immediate labor-time to produce the same mass of products. He can either continue to produce the same amount as before but with fewer workers, or produce a larger amount of products with the same amount of labor-time and workers. The first possibility is usually not realistic for the capitalist, since the increase in the productivity of labor is often only possible when the volume of production increases at the same time (we will return to this interrelationship in the next section). We can assume that the increase in productivity is usually accompanied by an increase in the number of products. The simplest way of selling the larger amount of products consists in sinking prices: the individual product is sold below its previous value. Even if our innovative capitalist sells below the previous value, he still does not have to completely forgo the extra surplus value. If, in the example above, he sells the computer (with costs of 240) for only 350 instead of 360, then he realizes a total surplus value of 110, which compared to the usual surplus value of 80 is still an extra surplus
value of 30. But the increased turnover for our capitalist means—if nothing else in the economy changes to bring about an increased total demand—that other capitalists who offer the same product will sell less and in extreme cases go bankrupt. If they want to defend their market share, they also have to sell at a lower price. If the method of production remains the same, this would lead to a reduction in their surplus value. The other capitalists thus have no other choice than to raise the productivity of labor and reduce costs to keep up in the price competition.

Thus does competition compel capitalists (always have in mind, "capitalist" refers not necessarily to an owner of capital but to capital personified: see section 4.2) to join in the increase in productivity initiated by another capitalist, even if at an individual level they have no interest in an increasing valorization of capital. The intrinsic laws of capital, such as the tendency toward lengthening the workday and the development of productivity, are independent of the volition of individual capitalists. These laws impose themselves as iron laws of competition. Since each individual capitalist is familiar with this pressure, he normally does not wait until it is imposed upon him by his competitors, but instead attempts to be the first to increase productivity so that he can at least have some of the extra surplus value, instead of just minimizing his losses. As a result, every capitalist puts the screws on all other capitalists, just as he himself is subject to the same pressure. And they all do this by following a blind "inherent necessity." However frugal the individual capitalist, he cannot abstain from the hunt for perpetually increasing profit—as long as he wishes to remain a capitalist.

5.3 The Methods of Producing Relative Surplus Value: Cooperation, the Division of Labor, Machinery

Capitalist production begins when a large number of workers, brought together under the command of a capitalist, work together for the production of the same type of commodity. An owner of money who barely succeeds in employing two or three workers, but who still must contribute to the labor process to secure his livelihood, is not a capitalist
in the strict sense, but rather a "small master." He becomes a capitalist when he can operate as capital personified, meaning that he can devote all his time to the organization and control of the capitalist process of production and the sale of products.

The cooperation of many workers brings about, even without a change to the technical conditions of production, a reduction in value of products. There are two reasons for this. One is that many means of production are used in common, so that they contribute a smaller share of value to the product (100 workers might produce ten times more than 10 workers, but they won’t need, for example, ten times as many buildings). The other reason is that new power emerges from the cooperation of many individual labor-powers: a large tree trunk cannot be moved by an individual worker, regardless of how much time he is granted to accomplish the task, but four workers can move the trunk instantly. Ten people arranged in a chain can transport a load considerably faster than if each individual covers the distance on his own, and so forth.

A further increase in the productivity of labor is achieved through the division of labor. A complex labor process is broken down into a number of simple subfunctions. This task can usually be executed faster when individually performed rather than performed within the framework of the overall process. Through corresponding practice and experience, with the support of special tools adapted to these special tasks, the individual worker specializing in a particular task can become even faster. The flip side is that the individual laborer becomes a largely dependent detail laborer, and the monotonous strain can lead to physical and nervous impairment. An operation in which the production process is based upon an extensive division of labor, but in which no or hardly any machines are used, is referred to as manufacture.

At the beginning of the twentieth century, the division of labor was carried to the extremes in Taylorism, named after the engineer F. W. Taylor. Taylor broke the movements of the labor process down into the smallest elements, in order to assign an individual worker a small number of movements. Time wasting and secret breaks would be minimized by this system. Such concepts were applied primarily in assembly-line production. However, this extreme form of the division of labor did not
only bring advantages for capital. In the case of complex production concerned with a high level of quality, an overly strong division of labor proved to be rather obstructive, since it produced too much waste. In the course of the development of the capitalist production process in the twentieth century, Taylorism therefore experienced both dissemination and curtailment.

The decisive heightening of the productivity of labor is achieved through the use of machinery. A machine is not merely a large tool. What is essential is that the tool is no longer a tool in the hands of an individual, but that it is the tool of a mechanism. The number of tools that can be simultaneously operated by a machine is freed from human constraints. A further increase in productivity is achieved when individual machines are combined to form a system of machinery that the object of labor passes through. An enterprise based upon machine production is called a factory.

In a mechanized factory, aside from activities that are not yet mechanized, the remaining task left to humans is that of monitoring the machines, repairing the machines, standing by, and eliminating mistakes caused by the machines. This is not fundamentally altered by the deployment of computer technology. A number of monitoring and control tasks are automated, but the controlling computer has to be monitored and its programming adapted to changing requirements.

The division of labor in manufacture proceeds from the artisanal skills of the labor force. Capital remains reliant upon this subjective skill, even if it is reduced to “detail dexterity.” Factory-based machine production fundamentally changes thus:

This subjective principle of the division of labour no longer exists in production by machinery. Here, the total process is examined objectively, viewed in and for itself, and analysed into its constitutive phases. The problem of how to execute each particular process, and to bind the different partial processes together into a whole, is solved by the aid of machines, chemistry, etc. (Capital, 1:501–2)

With machine production, capital can detach itself from the special skill of individual labor-power. Individual laborers are no longer just
reduced to the function of detail laborers. Rather, with the presence of a developed, well-functioning system of machine production, laborers are mere appendages of this system. The domination of capital over the workers materializes, so to speak, in the machine system:

Every kind of capitalist production, in so far as it is not only a labour process but also capital’s process of valorization, has this in common, but it is not the worker who employs the conditions of his work, but rather the reverse, the conditions of work employ the worker. However, it is only with the coming of machinery that this inversion first acquires a technical and palpable reality. By means of its conversion into an automaton, the instrument of labour confronts the labourer, during the labour-process, in the shape of capital, of dead labour, that dominates, and pumps dry, living labour-power. (Capital, 1:548)

Cooperation, the division of labor, and the use of machinery bring about a rise in the productive power of labor: with the same amount of labor expenditure, a larger number of products can be produced, so the value of the individual product sinks. This raised productivity of labor appears under capitalist conditions of production as the productive power of capital. This is already the case with simple cooperation: since individual labor-powers do not dispose of the additional productive power arising from their cooperation as individuals, and only cooperate under the command of capital, the additional productive power seems to be a productive power belonging to capital. This impression intensifies in manufacture and in the factory. Individual labor-power is reduced to a subfunction that is almost completely useless outside of manufacture and the factory. The fact that workers can do anything at all with their abilities seems to be a result brought about by capital. This appearance of capital as a power endowed with its own productive power can be referred to as the fetishism of capital. Just as with the fetishism of commodities, the fetishism of capital is not merely false consciousness or a simple misapprehension. Its foundation is the capitalist organization of the production process:
The possibility of an intelligent direction of production expands in one direction, because it vanishes in many others. What is lost by specialized workers is concentrated in the capital which confronts them. It is a result of the division of labour in manufacture that the worker is brought face to face with the intellectual potentialities of the material process of production as the property of another and as a power which rules over him. This process of separation starts in simple cooperation, where the capitalist represents to the individual workers the unity and the will of the whole body of social labour. It is developed in manufacture, which mutilates the worker, turning him into a fragment of himself. It is completed in large-scale industry, which makes science a potentiality for production which is distinct from labour and presses it into the service of capital. (*Capital*, 1:482)31

In one respect, increasing productivity by means of implementing machinery is fundamentally distinct from increasing productivity by means of cooperation or the division of labor. The introduction of machinery costs the capitalist something, and since the machine is used in the capitalist process of production, it transfers its value to the product. This means that instead of cheapening the product, the use of machinery leads initially to an increase in the value of the product. All in all, a cheapening of the product only occurs when the increase in value caused by the transfer of value from the machine is overcompensated through an accompanying reduction of immediate labor-time.

Let’s assume that during the production of a particular product raw materials having a value of 50 are used, as well as 8 hours of labor-time that under normal conditions produce a value of 80. Then the following applies for the value of the product:

\[ 50 \text{ (raw materials)} + 80 \text{ (labor-time)} = 130 \]

Now let’s assume that the product is made with the help of a machine. The machine has a value of 20,000 and can be used to produce 1,000 pieces until it is used up. A value of 20 is transferred to each individual piece. The individual, machine-produced product initially increases in value by
20. If 3 hours of labor are saved, so that instead of 8 only 5 hours are necessary, then the value of the machine-produced product adds up to:

\[50 \text{ (raw materials)} + 20 \text{ (machine)} + 50 \text{ (labor-time)} = 120\]

The product has been reduced in value by 10 units, the 20 additional units of value resulting from the use of machinery have been overcompensated by cutting down on three labor hours. If only one labor hour had been saved, then the value of the machine-produced product would have risen; the machine would not have contributed to raising productivity and cheapening the product.

But for the capitalist use of machinery, it is not sufficient that the use of machines generally cheapens the product. The capitalist is not interested in the value of a product, but rather in surplus value or profit, as the case may be. (See remarks in section 5.1.) As demonstrated in the previous section, the capitalist introduces an increase in productivity so that his individual costs are lower than the social average, so that he not only obtains the normal surplus value, but an extra surplus value (extra profit). Now let’s assume a rate of surplus value of 100 percent for the example above. The worker who labors for eight hours and creates a value of 80 receives a wage of 40. The remaining 40 is the surplus value obtained by our capitalist per product. Before the introduction of machinery, our capitalist has costs of:

\[50 \text{ (raw materials)} + 40 \text{ (wages for 8 hours)} = 90\]

After the introduction of machinery, the capitalist has costs of:

\[50 \text{ (raw materials)} + 20 \text{ (machine)} + 25 \text{ (wages for 5 hours)} = 95\]

Although the machine reduces the total expenditure of labor for the product concerned, it will not be introduced, since it does not also reduce the cost for our capitalist. These costs will first be reduced when more is saved in wages (per product) than the value transferred by the machine to the individual product. If in our example the value transferred by the ma-
machine is 20, then more than four hours of labor have to be saved in order for the implementation of the machine to be worthwhile. Or expressed another way, the additional constant capital \(c\), which is expended on the individual product during machine production, has to be less than the variable capital \(v\) which is cut down through the reduction in labor-time. So the capitalist will not arbitrarily expend a lot of additional constant capital per article, but maximally expend as much as he is able to save in variable capital per article.

Whether or not a particular machine (which transfers a specific portion of its value to the individual product) is introduced therefore depends upon how much variable capital is saved. But the variable capital saved does not solely depend upon the labor hours saved, but also upon the level of wages. In our example above, the workers received a wage of 40 for an 8-hour workday, which amounts to 5 per hour. The labor hours saved add up to a saving of variable capital in the amount of 15, so that the introduction of the machine was not advantageous for the capitalist. If wages had been higher, for example 8 per hour, then the three labor hours saved would result in a total savings of 24. At this level of wages, the additional constant capital (20) would have been compensated by the saved variable capital, and our capitalist’s costs would have been reduced. The same machine that at a low-wage level brings no savings in cost for the capitalist is therefore not introduced. However, at a high level of wages, it reduces costs and is introduced.

5.4 The Destructive Potential of the Capitalist Development of the Forces of Production

The cooperative labor process requires coordination. In the capitalist process of production, the capitalist assumes this coordinator function. However, direction by the capitalist does not just fulfill technical- organizational functions; it is also the organization of exploitation and is therefore conditioned by the antagonism between exploiter and exploited, which leads Marx to the conclusion that capitalist direction “in form it is purely despotic” (*Capital*, 1:450). With a large number of workers, there
is a need for—similar to the military—industrial commissioned officers and petty officers, who command in capital's name.

The form of managerial hierarchy has undergone somewhat far-reaching changes in the twentieth century. Capitalist despotism has experienced constraints through legal regulations on the one hand, and trade union bargaining procedures on the other. During the last decade in a number of industries there has been a tendency by capital to strengthen the autonomy of employees over the labor process. However, throughout all of these changes, the aim of capitalist production—the valorization of capital, the production of surplus value—was not called into question. These various changes still served solely to accomplish this aim. And in the case of skilled trades, it frequently proved to be more advantageous to motivate employees to voluntarily bring in their experiences and performance capabilities through a high level of autonomy, rather than forcing them to do so through constant pressure and supervision. But the consequences of this autonomy for employees are usually just as destructive as the old despotic forms, except that this destruction is now self-organized.

The destructive (for labor-power) tendencies of capitalist increases in productivity are immediately visible in the tendency toward extension, and recently, “flexibilization” of labor-time. Raising productivity means that the same amount of products can be made in a shorter period of time, but under capitalist conditions, a rise in productivity does not lead to a shortening of labor-time. Particularly when the rise in productivity is achieved by the introduction of machinery, the result is a lengthening of labor-time as well as shift- and night-work in order to accomplish the longest possible run time for the machine. There are many reasons for this.

As long as the new machine has not yet become the social standard, the capitalist who employs it in production realizes an extra surplus value. The more products he produces and sells in this exceptional situation, the greater this extra surplus value. If the use of the machine later becomes part of the socially average conditions of production, a long run time for the machine is still an advantage. How long the machine can be profitably used depends not only upon physical wear and tear, but also upon whether a newer, better machine is on the market. The faster a machine transfers its value to the products it helps to produce, the lower
the risk that it has to be replaced by a newer, better machine before it has transferred its total value. If the lengthening of the workday runs up against limits set by law or collective bargaining, then the capitalist usually attempts to impose an intensification of work, such as through a higher machine speed.

Since the production process is detached from the limitations of individual labor-power and becomes the object of scientific examination as an objective process, modern industry "never views or treats the existing form of a production process as the definite one. Its technical basis is therefore revolutionary, whereas all earlier modes of production were essentially conservative" (*Capital*, 1:617). The technical foundations of production are constantly revolutionized, the productivity of labor constantly increased. Increasing profit is the sole motivating factor for this. In the course of this process, massive investments are made to acquire new machines or construct new production facilities. Insofar as this investment serves to reduce the cost of the product, they count as necessary. Investments that serve to make working conditions for employees more comfortable or even just to minimize dangers to health and safety constitute deductions from profit and are avoided. Even today one can observe in many sectors:

The economical use of the social means of production, matured and forced as in a hothouse by the factory system, is turned, in the hands of capital, into systematic robbery of what is necessary for the life of the worker while he is at work, i.e. space, light, air and protection against the dangerous or the unhealthy concomitants of the production process, not to mention the theft of appliances for the comfort of the worker. (*Capital*, 1:552–3)

Legal coercion or the decisive resistance of employees is constantly necessary in order to impose even the simplest improvements in working conditions. The following statement by Marx is of contemporary relevance:

What could be more characteristic of the capitalist mode of production than the fact that it is necessary, by Act of Parliament, to force upon
the capitalists the simplest appliances for maintaining cleanliness and health? (*Capital*, 1:611)

The sole aim of capitalist production is the constant production of surplus value. Competition forces the individual capitalist, on pain of his ruin as a capitalist, to make the hunt for increasing surplus value the aim of his activity. *Nature*, just like labor-power, is merely an instrument for attaining this goal. In accordance with its intrinsic logic, capital is just as indifferent toward the destruction of the natural foundations of life (through waste runoff and exhaust fumes, through the destruction and poisoning of entire regions) as it is toward the destruction of individual labor-power. Today, an industrial mode of production based upon the combustion of fossil fuels is maintained and expanded, even though local as well as global ecological degradation as a result of climate change are foreseeable.

This destructive potential of the capitalist development of the forces of production can only be restrained “from outside,” through the resistance of workers or the power of the state. If such restraints are not in place, or if they are weakened, this destructive potential immediately asserts itself again, stronger than before. It is still true that capitalist production, therefore, only develops the techniques and the degree of combination of the social process of production by simultaneously undermining the original sources of all wealth—the soil and the worker. (*Capital*, 1:638)

In the face of the scale of environmental destruction and danger to health emanating from the industrial method of production, a vigorous debate occurred during the last third of the twentieth century as to whether this destruction is intrinsic to the material conditions of industrial production, or whether it is the capitalist conditions that first bring forth such acts of destruction.

There is no explicit discussion of this problem in Marx’s work. However, he emphasized that a distinction must be made “between the increased productivity which is due to the development of the social pro-
cess of production, and that which is due to the capitalist exploitation by the capitalists of that development” (Capital, 1:547). Thus Marx was often accused of regarding the industrial production process “itself” positively and criticizing only its capitalist shell. This was also the position of Marxism-Leninism. Accordingly, in the Soviet Union capitalist methods of production were to some extent adopted completely uncritically (as a critic of the corresponding interpretation of Marx, see Jacobs, 1997).

Today it is far clearer than in Marx’s time that not every industrial process of production simply has to be detached from its capitalist application to suddenly develop its purely beneficial effects. Some lines of development of industrialization are not just destructive as a result of their capitalist application: if atomic energy were put to use in a socialist society, then the risks would still be enormous, and the widespread use of fossil fuels would still lead to climate change. The destructive potential of capital does not just assert itself in the way a technology is applied, but in the choice of particular technical-industrial paths of development.

5.5 Formal and Real Subsumption, Fordism, Productive and Unproductive Labor

In the case of an already existing labor process being subordinated to capital, Marx speaks of the formal subsumption of labor under capital. The sole difference from pre-capitalist conditions consists in the fact that laborers work for a capitalist rather than for themselves. The coercive relation of capital expresses itself simply: the laborer works longer than is necessary for his own self-preservation, and the capitalist appropriates the surplus value thereby generated. On the basis of formal subsumption, only the production of absolute surplus value is possible.

If the labor process is transformed in order to increase productivity, Marx speaks of the real subsumption of labor under capital. The labor process under the command of capital is not only formally distinct from the pre-capitalist labor process, it is distinct in its entire organization and structure: the capitalist mode of production creates the material guise of production corresponding to its social form. Real subsumption is pos-
sible on the basis of formal subsumption. With the real subsumption of labor under capital, the production of relative surplus value is possible.

Up till now, when considering relative surplus value we have assumed that the quantitative amount of means of subsistence necessary to reproduce labor-power (or the family of the laborer, as the case may be) remains constant, that the standard of living for the working class does not change. But this is not necessarily the case.

Let's assume an 8-hour workday and a rate of surplus value of 100 percent. Then the workday breaks down into four hours of necessary labor-time used to reproduce the value of labor-power, and four hours of surplus labor-time in which surplus value is produced. Let's assume further that the monetary expression of the value created in eight hours under normal conditions is 160 euros, the daily value of labor-power is 80 euros, and the amount of surplus value produced daily is also 80 euros.

Now let's say the productivity of labor in all branches of the economy doubles. Then all goods can be produced in half the time previously required, and their value is reduced by a half. The daily value of labor-power is then already produced in two hours rather than four; it falls from 80 to 40 euros. Two additional hours remain for the production of surplus value, its magnitude is raised from four to six hours, and the surplus value rises 80 to 120 euros. The value of labor-power has been reduced by a half from 80 to 40 euros, but for 40 euros just as many means of subsistence can be purchased as previously for 80 euros, and the standard of living for the worker's family has remained constant.

Now let's assume further that workers succeed—as a result of labor struggles or a tight labor market, for example—in obtaining as wages not just the value created in two hours, but the value created in three, 60 euros instead of 40 euros. In this case, the value of labor-power would have still declined (from 80 euros to 60 euros), the surplus labor would have still increased by an hour (from four to five hours, the surplus value now being 100 euros), but now the standard of living for the worker's family has increased. Since the value of means of subsistence has been reduced by half as a result of the doubling of productivity, the working-class household now has at its disposal not just half, but three-fourths of the previous wage. If our working-class household can buy just as many means of subsistence
for 40 euros as it could before for 80 euros, but has 60 euros at its disposal, than it can increase the volume of means of subsistence by 50 percent. Or to express this in terms that are conventional today: nominal wages (meaning wages expressed in money) have fallen by 25 percent (from 80 to 60 euros), but real wages (wages expressed as purchasing power) have risen by 50 percent (50 percent more goods can be purchased).

As an effect of the increase in productivity, a rise in the standard of living of the working class has accompanied an increase of the surplus value appropriated by the capitalist. A decline in the value of labor-power simultaneous to an increase of the surplus value produced by individual labor-power means that the rate of surplus value \( s/v \), and with it the exploitation of labor-power, has increased. Increased exploitation (meaning that a greater portion of the workday consists of surplus labor) and an increased standard of living for the working class are therefore not mutually exclusive.

Finally, in our example, a shortening of labor-time is also possible. Let's assume that the daily labor-time is reduced from 8 hours to 7.5. If labor-power still receives 60 euros (the value created in three hours), 4.5 hours remain as surplus labor-time (half an hour more than before the productivity increase), the surplus value would be 90 euros (10 euros more than before the productivity increase). The example just outlined corresponds—not in terms of an exact quantitative relationship, but in terms of its tendency—to the course of development in the advanced capitalist countries. The fact that the working class in these countries has a higher standard of living than it did fifty or a hundred years ago in no way means—as is constantly alleged—that exploitation has receded or even disappeared. In the previous chapter, we already noted that exploitation does not mean a particularly bad or miserable state of affairs, but that workers create a larger sum of value than that which they receive as wages. The rate of exploitation is not measured by the standard of living, but by the rate of surplus value. It is quite possible that a rise in the standard of living and shortening of labor-time accompanies an increase in surplus value and the rate of surplus value.

The dynamic emanating from the production of relative surplus value outlined above (accelerated technical development, a rising standard of
living of the working class simultaneous to rising profit) is subject, how­
ever, to a precondition not hitherto addressed: the majority of means of
subsistence consumed in the working-class household have to be capitalistically produced. As long as working-class households still produce
a large portion of their means of subsistence themselves, or obtain them
from independent farmers and artisans, the productivity increase in capital­
talist enterprises leads to a short-term extra surplus value, but only to
a small decline in the value of labor-power. Only over the course of the
twentieth century was a state of development reached where the bulk of
goods consumed by working-class households were produced capitalis­
tically. So-called Fordism played a decisive role: drawing upon Taylor’s
breakdown of the labor process, Henry Ford with his auto factories suc­
cceeded around 1914–15 in producing the Model T as a standardized
mass product on the assembly line, considerably reducing the cost of the
product and making it into a consumer good for broad sections of the
population. At the same time, Ford raised wages (at least for a certain
segment of his workforce: white, full-time production workers) far above
the average for that time, in order to reduce turnover in the labor force.
After the Second World War, Fordism was established across the board:
consumer goods such as cars, refrigerators, washing machines, and tele­
visions were constantly cheapened through Taylorism and assembly-line
production, but real wages increased. Since the value of labor-pow­
er declined despite rising real wages, a rise in profit was still possible.
Standardized mass production, an expansion of mass consumption, and
rising profit went hand-in-hand for just about two decades and were an
important, if not the sole basis for the Wirtschaftswunder (Economic
Miracle) of the postwar era in Germany and some other countries in
Western Europe and North America.

The aim of the labor process, considered independently from its
economic form-determination, consists in the production of a specific
use-value. From the standpoint of the labor process, the labor that cre­
ates this use value (or is involved in its creation) is productive labor. The
aim of the capitalist production process consists in the production of
surplus value. From the standpoint of the capitalist production process,
only labor that produces surplus value is productive labor. When in what
follows we discuss productive labor, this capitalist meaning is intended, unless otherwise specified.

Whether a specific type of labor expenditure is productive labor in the capitalist sense does not depend upon the concrete character of the labor, but upon the concrete economic circumstances in which it occurs. If I bake a pizza in order to eat it myself or offer it to my friends, then I have created a use value, but not a commodity (the pizza isn’t sold), and for that reason I have also not produced any value or surplus value. But if I am hired as a cook in a capitalist restaurant, and if I bake a pizza that is eaten by paying guests, then I have not only produced value but also surplus value, and in this respect my labor was “productive.”

Whether my labor is productive is not dependent upon the character of the use value produced, but upon whether I produce a commodity that also contains surplus value. As pointed out in section 3.1, not only material products but services, insofar as they are sold, are commodities. In a capitalist theater, the actors are therefore just as much “productive laborers” as steelworkers who work in a capitalist steel mill. Whether or not a particular article is “really” useful for the reproduction of society also does not play any role in determining its character as a commodity. A luxury yacht, a video commercial, or tanks are all commodities if they find a buyer. And if these are produced under capitalist conditions, the labor expended during their production is “productive labor.”

In order to perform productive labor in a capitalist sense, I have to be a wage-laborer. However, the opposite is not necessarily the case. Not every wage-laborer is automatically a “productive laborer.” Let’s stay with the pizza example above: if I’m a cook in a capitalist restaurant, my labor is productive. But now let’s assume the owner of the restaurant is able to afford a private cook and I switch from working in the restaurant to working in the household of the restaurant owner. I remain a wage-laborer, but I no longer produce any commodities, only use values: the pizza that I prepare in the household kitchen of the restaurant owner is not sold, but is consumed by the restaurant owner and his friends. I have produced neither value nor surplus value, and am therefore an “unproductive” wage-laborer.

Here the meaning of the distinction between productive and unproductive labor can be made perfectly clear: if I am employed as a cook in a
restaurant, then the restaurant owner has to lay out money for my wages as well as the foodstuffs I work with, just as he would if I were employed as his private cook. But the money he expends for his restaurant business is only *advanced*; if things go well for the restaurant business, the money returns to the owner, increased by the amount of surplus value. The money paid to me as a private cook is *spent*; the restaurant owner receives a use value in return, but no money. In order to spend money for a private cook, the restaurant owner needs the surplus value produced by a cook in the restaurant. The amount of unproductive labor that the restaurant owner can afford is limited by the amount of surplus value produced by the productive laborers in the restaurant.

5.6 *Accumulation, the Industrial Reserve Army, Immiseration*

If at the end of the capitalist production process the product is successfully sold, the capitalist obtains not only the originally advanced sum of capital but an additional surplus value. This surplus value is the aim of capitalist production. However, it does not exist to serve the consumption of the capitalist—then the aim of production would only be the mass of use values that can be bought with the surplus value—but rather the further valorization of capital: the valorization of capital is an *end in itself* (see section 4.2). At the end of the valorization process M—C—M', money is once again advanced as capital, and not as the initial sum of value M, but rather a sum of value increased by the amount of surplus value (minus the consumption expenditures of the capitalist), that under otherwise stable conditions yields in turn an increased surplus value. The transformation of surplus value into capital is called *accumulation*.

Competition drives the individual capitalist to accumulate. He must participate in the race for a constant increase in productivity to keep up in the price competition. Increasing productivity through the introduction of machinery is generally expensive. Frequently, it is not sufficient to invest the same sum of value in other machines; a higher sum of value is often needed, so that accumulation is imposed upon the individual capitalist.
The extent of accumulation can turn out very differently for individual capitals. In the case of large investments, when entire production facilities have to be renovated, there comes a point when the previously created surplus value is insufficient. In such a case, the extent of accumulation can be enhanced by credit. On the other hand, there can also be cases in which the entire surplus value is not required for accumulation, so that the rest of the surplus value can be invested as interest-bearing capital at banks or in the financial markets. In both cases, the rate of interest is a decisive quantity. The examination of interest-bearing capital, credit, and so on, presupposes a few intermediate steps, and is carried out by Marx in the third volume of *Capital* (see chapter 8). His depiction of the accumulation process in the first volume (upon which this section is based) is therefore not complete by far—which again indicates the necessity of not restraining one’s reading of *Capital* to the first volume.

At the beginning of this chapter, the distinction between *constant capital*, $c$ (that portion of capital advanced for machines, raw materials, etc.), and *variable capital*, $v$ (capital advanced for wages), was introduced. Marx refers to this ratio of constant to variable capital, $c/v$, as the *value-composition* of capital. Insofar as the value-composition of capital is determined by technological composition, Marx refers to it as the *organic composition of capital* (*Capital*, 1:762). Thus, this organic composition only accounts for such changes of value-composition that result from changes in technical conditions (such as when a new, expensive machine is introduced), but not those that result from a change in value of the means of production used. For example, if coal becomes more expensive, then the constant capital $c$ in a steel mill increases, and $c/v$ also increases, without any change in the conditions of production. In this case, the value-composition would have increased, but not the organic composition. When we write below about the composition of capital, then we mean the value-composition and not the organic composition.34

If capital is accumulated under constant conditions, especially in the case of a constant value-composition, constant value of labor-power and constant length of the workday, then the demand for labor-power grows just as strongly as capital. For example, if so much surplus value is transformed into capital that the sum of value advanced as capital rises by 20
percent, then 20 percent more labor-power is also required. The rising demand for labor-power initially improves the conditions under which labor-power is sold, so that the current price of labor-power can rise above its value. This also diminishes surplus value, which slows further accumulation, puts a brake on the demand for labor-power, and therefore also any further rise in wages.

If wages rise, then this also has consequences for the introduction of labor-saving machines. As explained in section 5.3, a capitalist will only introduce a machine if the increase in production costs (as a result of the value transferred from machine to product) is less than the reduction of the costs of variable capital. However, the amount of variable capital the capitalist saves when he reduces labor-time by a specific quantity depends upon the level of wages. Hence, in the case of the existence of high wages, machines are introduced that would have brought no cost advantage at a low level of wages. Rising wages thus lead to an accelerated introduction of labor-saving machines. The typical accumulation process does not take place under constant conditions, but under an increasing value-composition of capital: consequently, even in the case of a continuous accumulation process, the demand for labor-power and a rise in wages can be limited. As already mentioned in section 4.4, the capitalist accumulation process itself ensures that wages on average are limited to the value of labor-power and that this value, although historically variable, cannot climb so high that it seriously impairs the valorization of capital.

The mass of workers who are willing (or impelled) to sell their labor-power but who don’t find any buyers are referred to by Marx as the industrial reserve army. The size of this industrial reserve army depends upon two opposing effects. On the one hand, accumulation of capital, and therefore an extension of production, occurs, which—at a constant level of value-composition—requires more labor-power (employment effect of accumulation). On the other hand, an increase in productivity of labor that expresses itself in an increasing value-composition leads, at a constant level of production output, to less labor-power being required (labor redundancy effect of rising productivity). Whether the demand for labor-power rises or falls depends upon which of these two effects is preponderant.
If we assume that the productivity of labor doubles, only half of the labor-power is necessary for the production of a particular quantity of products. If so much surplus value is transformed into new capital that the production will double, then the number of employed laborers remains the same. If less capital is accumulated, then the volume of goods produced increases, but the larger volume of goods is produced by a smaller number of workers.

Marx assumed that capital tends to bring forth an increasingly growing industrial reserve army. At a roughly constant number of forces of labor, this is only possible when the redundancy effect of the rise in productivity outbalances the employment effect of accumulation. If one takes an individual capital into consideration, one cannot generally predict which effect is stronger. However, Marx argues that there are two possibilities of growth for individual capitals. One occurs due to the transformation of surplus value into capital; Marx refers to this type of growth as the concentration of capital; the other occurs due to the aggregation of different individual capitals (whether in a “peaceful” fusion or a “hostile” takeover), which he calls the centralization of capital. In the case of centralization, the individual capital grows considerably, which is then usually also expressed in an accelerated technical revolution (the increased capital has more possibilities for investment at its disposal, it can acquire machines for which the means of the smaller capital was not sufficient, etc.), without a growth in total capital. In this respect productivity increases with significant redundancy effects as a result of the centralization, without any opposing employment effect as a result of accumulation. This thought is quite plausible; but whether an employment effect or redundancy effect occurs in the whole economy depends upon the frequency of such centralization processes and the relation between the redundancy effects resulting from them to the employment effects of the remaining capitals.

The tendency of a growing industrial reserve army assumed by Marx cannot be strictly substantiated as a claim. However, it is at least clear that the industrial reserve army in capitalism cannot disappear in the long run. Capitalism with full employment is always an exception: full employment allows workers to impose higher wages, which leads to a slowdown in
the accumulation process and/or the implementation of labor-saving machines, so that an industrial reserve army emerges once again.

For the individual capitalist, the existence of this industrial reserve army offers a double advantage. For one thing, the unemployed forces of labor exert a downward pressure on the wages of the employed, and for another, they really do constitute a "reserve" for volatile expansions of accumulation: a quick expansion of production, for example, on the basis of new sales potentials in foreign countries, is not possible in the case of full employment. For that reason, appeals to business to do something to help reduce unemployment are always off base. A critique of capitalism that accuses capitalism of producing unemployment is also wrong, however: the sole aim of capital is valorization, not the creation of full employment or even a good life for the majority of the population.

Subsequent to the examination of the reserve army of labor, in the twenty-third chapter of the first volume of *Capital* one finds various statements that are interpreted as a theory of "immiseration." In the 1920s, this theory of immiseration was understood as a theory of revolution: in capitalism the masses are impoverished, so that they inevitably realize that they have no other option than the revolutionary abolition of capitalism. However, the example of fascism (but not only this example) shows that the most "impoverished" sectors of the population in no way automatically move to the left; they can just as well turn toward right-wing, nationalist, and fascist movements.

During the time of the "economic miracle" (*Wirtschaftswunder*) in West Germany and the period of postwar prosperity in general in the 1960s and 1970s, exponents of capitalism eagerly pointed out that Marx's immiseration theory had obviously been refuted by full employment and the constantly rising standard of living of workers, which was then expanded to a fundamental argument against Marx's critique of political economy. The alleged false prediction concerning capitalism's development proved how totally wrong Marx's analysis had been.

Marxists did not accept this judgment and made a distinction (not explicitly present in Marx's work) between "absolute immiseration"—the absolute decline in the standard of living of the working class—and "relative immiseration": there might be a rise in the standard of living, but the
share that the working class has of the total wealth of society declines relative to that of the capitalists.

Substantially (although not with this notion), Marx advanced a theory of absolute immiseration in the Communist Manifesto of 1848, but in the first volume of Capital, published nineteen years later, there is no longer any mention of it. In Capital, Marx emphasizes that it is precisely the production of relative surplus value (which, if one wishes to, can be understood as a theory of “relative immiseration”) that allows an increase in the standard of living of the working class concurrent with an increase in surplus value (see section 5.5).

However, in the much-discussed passage in chapter 25 of Capital, vol. 1, Marx’s primary concern is not at all a particular distribution of income. Marx writes, in reference to the production of relative surplus value,

that within the capitalist system all methods for raising the social productivity of labour are put into effect at the cost of the individual worker; that all means for the development of production undergo an inversion\(^{35}\) so that they become means of domination over, and exploitation of the producers; they distort the worker into a fragment of a man, they degrade him to the level of an appendage of a machine, they destroy the actual content of his labour by turning it into a torment; they alienate [entfremden] from him the intellectual potentialities of the labour process in the same proportion as science is incorporated in it as an independent power; they deform the conditions under which he works, subject him during the labour process to a despotism the more hateful for its meanness; they transform his life-time into working-time, and drag his wife and child beneath the wheels of the juggernaut of capital. But all methods for the production of surplus value are at the same time methods of accumulation, and every extension of accumulation becomes, conversely, a means for the development of those methods. It follows therefore that in proportion as capital accumulates, the situation of the worker, be his payment high or low, must grow worse. (Capital, 1:799)

The fact that Marx is not primarily concerned with the development of income or living standards is made clear by the last sentence. The
“worsening” of the situation of the worker refers to the totality of his or her working and living conditions, as the following statement also makes clear:

Accumulation of wealth at one pole is, therefore, at the same time accumulation of misery, the torment of labour, slavery, ignorance, brutalization and moral degradation at the opposite pole. (*Capital*, 1:799)

Marx’s critique of capitalism cannot be reduced to a question of income or wealth distribution. This distribution can be changed to some extent within capitalism, and it is quite in capital’s interest that workers do not sink into total poverty, since the quality of their labor-power also suffers as a result. Even the unemployed, the “industrial reserve army,” at least in the so-called developed countries, should not be reduced to a vegetative state, since their labor-power, required by capital in the case of a renewed surge of accumulation, would no longer be deployable (see chapter 11 below).

What Marx criticizes is not a specific distribution of goods or income, but the “miserable” working and living conditions, in a comprehensive sense, which he characterizes with terms such as “endless drudgery and toil,” “ignorance,” and “brutalization.” Marx wants to make clear that the basic structures of such conditions are not just maladies characteristic of capitalism’s infancy, they remain throughout the development of capitalism—regardless of changes to their concrete appearance. Since the sole aim of the capitalist process is valorization and an increasingly improved valorization, and humans and nature are treated as mere instruments of valorization, this process possesses an intrinsic destructiveness toward humans and nature that constantly produces these miserable living conditions in newer forms, even in the case of an increased standard of living.

Marx does not hurl any moral accusations at individual capitalists as a result of his analysis, but simply concludes: if one is actually interested in changing these miserable conditions, then one has no other option than the abolition of capitalism. Marx’s critique does not consist of a moral remonstrance, but rather provides evidence of how capitalism actually functions.
6. The Circulation of Capital

With the valorization process, capital alternately adopts the forms of commodity and money. As evident in the “general formula of capital,” M—C—M’, the valorization process encompasses both acts of production and acts of circulation. The previous chapter only dealt with the production process of capital, a process depicted by Marx in the first volume of Capital. Marx examines the circulation process of capital in the second volume. In this chapter, we will illuminate a few key concepts from Marx’s analysis that are necessary for an understanding of the content of the third volume.

6.1 The Circuit of Capital: Costs of Circulation, Industrial Capital, Merchant Capital

The formula M—C—M’ is an abstract depiction of the circuit of capital. This breaks down into three stages:

The first stage: The capitalist appears as a buyer on the market, and converts his money capital M into a commodity C. Money is the independent form of value; money capital is the money form of capital. What
makes this act of purchase into an episode in the circulation of capital is
the context in which it occurs: the capitalist purchases a commodity in
order to produce new commodities that are to be sold for a profit. This is
made possible by the special material content of the purchased commodi-
ity: the capitalist buys means of production (MP) and labor-power (L),
meaning he transforms money capital M into *productive capital* P.

**The Second Stage:** The circulation process is interrupted: produc-
tive capital P is expended in the process of production. Productive
capital consists of means of production and labor-power, but this does
not mean they were always productive capital. Means of production and
labor-power are always the factors of the production process, regardless
of its social form; they are productive capital only *within the capitalist
process of production*. The result of the capitalist production process is
a new quantity of commodities; as a form of existence of valorized capi-
tal, this quantity of commodities is *commodity capital* C'. It consists not
only of qualitatively different commodities than the original quantity of
commodities C (means of production and labor-power), it should also
possess, in the case of sale, a higher value than C.

**The Third Stage:** The circulation process is continued, as the
capitalist enters the market as a seller. He sells the new quantity of com-
modities C' for M', that is, he transforms commodity capital back into
money capital, but the latter is now valorized, that is, it is money capital
increased in value by the amount of surplus value.

As a diagram, we obtain the following (the dots indicate that the cir-
culation process is interrupted by the production process):

```
MP
/  
M—C ... P ... C'—M'  
\  
L
```
In its circuit, capital assumes the successive forms of money capital, productive capital, and commodity capital. These forms are not independent varieties of capital, but rather individual phases of the circuit of capital.

The time spent by capital in the production process is the time of production; the time spent by capital in the circulation process, whether in the form of money capital seeking commodity sellers, or as commodity capital—seeking buyers, is capital's turnover time. The time of production is longer than pure labor-time: if machines remain idle overnight, or if supplies are kept in storage, then capital is still located within the production process, even if temporarily outside of labor-time. However, it is only during labor-time that value and surplus value are produced, so that the capitalist attempts to keep excesses of production time and turnover time beyond the actual labor process as low as possible.

Costs of circulation arise from the circulation process. However, a distinction must be made between the costs of productive activities that increase the use value and value of the product and thus a continuation of the production process during circulation and pure costs of circulation that do not add to the use value and therefore not to the value of the product, as they originate solely from the change of form of money into commodity or commodity into money, respectively.

The most notable example of the first sort of costs of circulation is transportation costs. A product only has a use value for me when I have access to it at the location in which I wish to consume it. For example, the transportation of a bicycle from the factory to the consumer is just as necessary as the fitting of its tires and therefore also contributes to the value of the bicycle.

In contrast, the mere change of form of commodity and money has nothing to do with the use value of the commodity, and therefore nothing to do with its value. Pure agents of circulation (such as cashiers) can also be wage laborers who perform surplus labor comparable to other wage laborers insofar as they work, for example, eight hours while their wage constitutes a sum of value that under normal conditions is produced in four hours. However, these agents of circulation have not themselves produced any value or surplus value. Their labor is labor that is necessary under capitalist conditions, but is nonetheless "unproductive," meaning
that it does not create surplus value. The wage for this labor (and the value of the means of production used by it) is a deduction from the surplus value created by productive laborers. The fact that unproductive laborers perform surplus labor and are therefore also exploited does not contribute to surplus value, though the exploitation of the unproductive laborers diminishes the deduction from surplus value.

What was just said with regard to the costs of pure agents of circulation is generally valid for the pure costs of circulation: the costs constitute a deduction from surplus value. If these costs decrease, the remaining surplus value increases. For this reason, it appears as if the valorization of capital results not from the exploitation of labor-power in the production process but independently from the production process in the circulation process of capital. The capital fetish dealt with in the examination of the production process (see section 5.3) is further reinforced in the process of circulation.

Marx refers to capital that passes through the three forms of money capital, productive capital, and commodity capital as industrial capital. This term is not intended to underscore the material character of this capital (such as the use of large production facilities), but is a distinctive feature from the perspective of value:

Industrial capital is the only mode of existence of capital in which not only the appropriation of surplus-value or surplus-product, but also its creation, is a function of capital. (Capital, 2:135–36)

Capital invested in service enterprises also belongs to the category of industrial capital in this sense. The sole difference consists of the fact that the finished product (whether a theater performance or an act of transportation) is not a material object acting as independent commodity-capital; it can only be consumed simultaneously with its process of production, so that the diagram of its circuit appears as follows:
But the value of such a service, like the value of any other commodity produced under capitalism, is determined by the sum of the value of the means of production used in its production $c$ and the value newly created through the expenditure of labor-power $(v + s)$.

In contrast, pure merchant capital (trading capital, commercial capital) and interest-bearing capital do not belong to the category of industrial capital. Both appropriate a share of surplus value, but the production of this surplus value does not belong to their capital function.

Pure *merchant capital* is only involved with the purchase and sale of commodities; the laborers employed by merchant capital perform unproductive labor that does not yield any surplus value. The industrial capitalist saves on the monetary expenditures for this unproductive labor (the actual costs of circulation) and also cuts the circulation time for his own capital by selling to merchants instead of consumers. He sells the commodities produced by his own capital *under* their value to the merchant, who then sells them at their value. In this way, the industrial capitalist shares the surplus value produced by his capital with the merchant capitalist.

### 6.2 The Turnover of Capital, Fixed Capital, and Circulating Capital

If the circuit of capital is not considered as a single occurrence, but as a periodical process, one speaks of the *turnover* of capital. The *turnover time* is the sum of production time and circulation time; it is that period of time for which a capitalist must advance capital before he obtains it again as a valorized sum.

A part of the means of production, such as buildings and machines, are only worn out after numerous production periods. In accordance
with their average wear and tear, buildings and machines transfer only a portion of their value to the value of the product: if, for example, a particular machine can be used through twenty production periods, it then transfers a twentieth of its value to the product in each production period. Whereas the value of this machine partially enters the sphere of circulation, the machine in its physical form remains within the sphere of production. The components of constant capital with this characteristic are referred to as fixed capital. Opposite to fixed capital is fluid or circulating capital: this refers to those components of capital that are physically used up within a single production period, whose natural form therefore disappears. Belonging to the category of circulating capital are, on the one hand, the non-fixed parts of constant capital, such as raw and auxiliary materials, energy, and so on, and, on the other, variable capital.

The difference between fixed and circulating capital is not a material one (such as that between animate and inanimate objects), but a difference in the circulation of value, which is of enormous practical significance for the capitalist. Under normal conditions, the value of circulating capital is usually replaced after a single turnover and must be immediately advanced for the next production period. The value of fixed capital is only fully transferred to the product in the course of multiple production periods, and therefore only a part of it is returned after a single turnover. These returns are not immediately needed, but only when the material elements of fixed capital actually have to be replaced, such as when a new machine has to be purchased. Then the entire amount of fixed capital has to be advanced in one fell swoop. Until then, the returns of fixed capital constitute a sinking fund.

The distinction between fixed and circulating capital as well as that between constant and variable capital are both distinctions of productive capital, of the capital-value transformed into means of production and labor-power. The distinction between constant and variable capital refers to the constitution of value: constant capital $c$ merely transfers its value to the product, whereas variable capital creates new value in the amount of $v + s$. In contrast, the distinction between fixed and circulating capital refers to the circulation of value, the point in time when the corresponding capital-value returns once again to the capitalist.
The distinction between constant and variable capital presupposes a series of theoretical insights into the process of value creation (concerning the connection between value and labor, the difference between labor and labor-power, the recognition that “wage” as compensation for labor is an “imaginary expression,” etc.). These insights are not a matter of course in everyday consciousness, not even for the capitalist (concerning everyday consciousness, see chapter 10). In contrast, the distinction between fixed and circulating capital is, on the basis of its practical significance, immediately apparent for the capitalist and a foundation of his calculations. As this distinction subsumes variable capital and a portion of constant capital under the label of circulating capital, the distinction between constant and variable capital is obscured even further.

6.3 The Reproduction of the Total Social Capital

The circuits of individual capitals are intertwined and presuppose one another: the circuit of one capital necessitates that it encounters on the market the products of other capitals, both means of production as well as means of subsistence consumed by the labor-power it employs. If the individual capital has produced commodities, it is dependent upon its own commodities entering the circuits of other capitals as means of production or subsistence. The reproduction of an individual capital cannot therefore be considered in isolation; it is only possible as a moment in the reproduction of the total social capital, which is constituted by the entirety of individual capitals.

So that the total social capital can be reproduced, the total product must have a certain material proportioning: on the one hand, a certain amount of means of production have to be produced as are required by individual capitals as a whole, and on the other, so many means of subsistence have to be produced as are consumed by workers and capitalists. But since means of production and subsistence are not merely allocated, but rather exchanged, the determinate material portion of the total social product must also have a certain value proportion, so that the means of production and subsistence can also be paid for.
We can make this proportioning clear using an extremely simplified example. Let's assume an economy in which there are only workers and capitalists and in which all production is organized capitalistically. Let us also disregard fixed capital, meaning that we assume that the entire constant capital is used up within the period under consideration—say, a year—and transfers its value to the product.

In this economy, there are thousands of different branches (steel industry, chemical industry, foodstuffs manufacturers, clothing industry, etc.), and most of these branches can be further divided into a number of sub-branches. For our purposes, we will only distinguish between two large departments of production: Department I produces means of production, and Department II means of consumption in the broadest sense. The difference between the two departments lies in the use of their products: products from Department I enter into further production processes, while products from Department II flow into the consumption of working-class and capitalist households. A series of products, for example automobiles, are adequate for both purposes. From our simplified viewpoint, let us further assume that automobiles used as means of production are produced in Department I, whereas automobiles used as means of consumption are produced in Department II.

So that the total social capital can be reproduced, the products of both departments cannot exist in an arbitrary relationship of quantity and value. We will initially examine their necessary proportioning under the precondition of simple reproduction, meaning that we disregard accumulation and therefore assume that the entire surplus value flows into the consumption of the capitalists.

If \( c_1 \) and \( v_1 \) are the constant and variable capital for Department I and \( s_1 \) the surplus value produced in that department (with \( c_{\text{II}}, v_{\text{II}}, \) and \( s_{\text{II}} \) the corresponding values for Department II), then the following is valid for the total product value:

\[
\begin{align*}
\text{In Department I:} & \quad c_1 + v_1 + s_1 \\
\text{In Department II:} & \quad c_{\text{II}} + v_{\text{II}} + s_{\text{II}}
\end{align*}
\]
The product of Department I consists materially of means of production. If simple reproduction is to be possible, then this product must replace the means of production used in both departments. Therefore the following value relation must be valid:

\[ c_1 + v_1 + s_1 = c_1 + c_\text{II} \]

The product of Department II consists of means of consumption. It must cover the consumption of the workers and capitalists in both departments. Thus the following must be valid:

\[ c_\text{II} + v_\text{II} + s_\text{II} = v_1 + v_\text{II} + s_1 + s_\text{II} \]

From both equations (subtracting the common elements on both sides) it follows that:

\[ c_\text{II} = v_1 + s_1 \]

Thus the value of the constant capital used in Department II must be equivalent to the value of variable capital and surplus value in Department I.

But individual capitals plan their production independent of one another, and for that reason the conditions formulated above can only come about coincidentally. Normally, a certain disproportion between the individual departments will always occur.

If we now consider the expansion of reproduction, thus assuming the existence of accumulation, meaning the transformation of a portion of surplus value into new capital, then we can in principle make the same assertion: the product of Department I must now not only suffice to replace the means of production used in Departments I and II, but must also produce more means of production to make accumulation in both departments possible. The same is true for Department II: now enough means of subsistence have to be produced not only to cover the consumption of workers and capitalists but as additional means of subsistence to cover the consumption of the additionally employed labor-power.

In order to make accumulation possible, both departments must produce more than was previously used: the accumulation of one individual
capital presupposes the accumulation of other capitals, in two regards: though our accumulating individual capital must encounter more products on the market than before, it itself produces a larger quantity of commodities, which can only be sold when other individual capitals also accumulate. In this case, the correct proportions can also only be maintained by coincidence, and disproportions between departments are the rule.

In the history of Marxist debates, the reproduction schemas illustrated above played an important role at the beginning of the twentieth century, inspiring discussion over whether a crisis-free capitalism was possible at least in principle and what developmental perspectives existed for capitalism in underdeveloped countries such as Russia (see Rosdolsky, 1968b; Milios/Economakis, 2003). But these debates burdened these schemas with too much explanatory power. Though they offer a broad overview of capitalist production and circulation, they are a long way from being an exact depiction of capitalist reproduction as it exists in empirical reality. Rather, the unity of the production and circulation process expressed in the reproduction schemas constitutes the initial foundation upon which categories in which concrete relations are expressed, such as profit, interest, enterprise profit, capital stock, etc., can be meaningfully considered.
7. Profit, Average Profit, and the “Law of the Tendency of the Rate of Profit to Fall”

In chapters 7 through 10 we will deal with themes from the third volume of *Capital*. With this volume, we encounter those categories that express the “empirical” reality of capitalist relations, meaning the way the capitalist mode of production appears to our immediate perception. Marx characterizes the continuity of the three volumes of *Capital* in the following way at the beginning of the third volume:

In Volume I we investigated the phenomena exhibited by the *process of capitalist production* taken by itself, i.e. the immediate production process, in which connection all secondary influences external to this process were left out of account. But this immediate production process does not exhaust the life cycle of capital. In the world as it actually is, it is supplemented by the *process of circulation*, and this formed our object of investigation in the second volume. Here we showed, particularly in Part Three, where we considered the circulation process as it mediates the process of social reproduction, that the capitalist production pro-
cess, taken as a whole, is a unity of the production and circulation processes. It cannot be the purpose of the present, third volume simply to make general reflections on this unity. Our concern is rather to discover and present the concrete forms which grow out of the process of capital’s movement considered as a whole. In their actual movement, capitals confront one another in certain concrete forms, and, in relation to these, both the shape capital assumes in the immediate production process and its shape in the process of circulation appears merely as particular moments. The configurations of capital, as developed in this volume, thus approach step by step the form in which they appear on the surface of society, in the action of different capitals on one another, i.e. in competition, and in the everyday consciousness of the agents of production themselves. (Capital, 3:117)

7.1 Cost Price, Profit, and the Rate of Profit—Categories and Everyday Mystifications

The value of every capitalistically produced commodity can be depicted as $c + v + s$, where $c$ denotes the value of the means of production used and $v + s$ the value newly created by the expenditure of living labor. For the capitalist, $c + v$ is the essential quantity: it indicates what the commodity costs the capitalist. Marx refers to this quantity as the cost price of the commodity.

As far as the creation of the commodity’s value is concerned, $c$ and $v$ play completely different roles: the value of the means of production used is transferred to the product, while the value of labor-power has nothing to do with the value of the product, since a new value, based upon the expenditure of labor-power, is transferred to the product. Mathematically, this new value is equal to $v + s$ (see section 5.1).

However, the different roles played by $c$ and $v$ in the creation of value are not immediately apparent. To wit: in the form of the wage, all labor appears to be paid labor. With $v$, labor’s contribution of value to the finished product seems to be compensated, just as in the case of $c$ the value contributed by the means of production is to be paid. A fundamental
difference between both components of capital is not apparent. The sole difference noticeable to the capitalist is that between fixed and circulating capital, even though the difference between fixed and circulating capital has nothing to do with the creation of value, but rather with the time of the return of value (see section 6.2).

Surplus value is initially just a surplus of the commodity’s value above its cost price, which is to say above the value spent on its production. The capitalist is aware that this surplus has its origin in the productive procedures that occur with his capital. However, since the capitalist perceives no difference—with regard to the creation of value—between the contribution of individual capital portions, this surplus seems to emanate from all portions of capital equally (from constant and variable capital just as much as from fixed and circulating capital).

Surplus value as the fruit of the total capital advanced is profit. In the case of profit, the same quantity is set in relation to the value of the total capital advanced rather than just the value of labor-power. But profit is not just another word for surplus value. It is important to note that profit is linked to a completely different notion, one that mystifies the actual conditions. Surplus value is the surplus of new value, created by living labor, above the value of labor-power; the expenditure of living labor is (under capitalist conditions) the source of surplus value. Profit, on the other hand, is the surplus of the commodity’s value above the portion of capital advanced that is used in the commodity’s production; here, capital appears as the cause of profit. Marx summarizes the difference between surplus value and profit as follows:

In surplus-value, the relationship between capital and labour is laid bare. In the relationship between capital and profit, i.e. between capital and surplus-value as it appears on the one hand as an excess over the cost price of commodity realized in the circulation process and on the other hand as an excess determined more precisely by its relationship to the total capital, capital appears as a relationship to itself, a relationship in which it is distinguished, as an original sum of value, from another new value that it posits. It is in consciousness that capital generates this new value in the course of its movement through the production and circula-
tion processes. But how this happens is now mystified, and seems to derive from hidden qualities that are inherent in capital itself. (*Capital*, 3:139, last two sentences in corrected translation)

Profit’s mystification of actual relations has another mystification as a presupposition, namely, the conception of the wage as the payment of labor: only because the wage is not viewed as payment of the value of labor-power, but rather as the payment of the value of labor, can surplus value appear as profit, that is, as the fruit of capital.

Surplus value in the form of profit is not just a conception that mystifies actual relations; this conception is of practical relevance, since the individual capitalist is only interested in profit as a surplus of the commodity’s value above the value of capital required for its production. Thus, the measure of valorization for the capitalist is not the rate of surplus value $s/v$, but rather the rate of profit $s/(c + v)$. Every time capital is advanced, the capitalist has an interest in the highest possible rate of profit; this quantity is decisive for the practical activity of the capitalist.

The rate of profit can be raised—under otherwise constant conditions—by an increase in the rate of surplus value (see chapter 5 on the production of absolute and relative surplus value). But the rate of profit can also be increased under a constant (and even falling) rate of surplus value. Fundamentally, there are three possibilities.

1. **Economy in the Use of Constant Capital.** The elements of constant capital are dealt with sparingly. Such savings can arise from an extension of the volume of production: production that is increased twofold does not necessarily require double the amount of energy, buildings, etc. This is especially the case when the extension of production is achieved through an extension of the workday: in a two-shift workplace, one can produce twice as much with the same machines and buildings as in a one-shift workplace. Only the raw materials have to be doubled. At a constant rate of surplus value, surplus value and variable capital double, but the constant capital increases by far less, so that the rate of profit increases enormously. Hence the capitalist can afford to pay overtime and night-shift bonuses. Due to this
the rate of surplus value decreases slightly, but on the basis of the enormous savings of constant capital the rate of profit nonetheless increases. At a constant volume of production, savings in constant capital can be achieved by a more rational use of raw materials and energy, but also at the cost of the laborers if cutting back on safety measures or by accepting labor processes that are dangerous to workers' health. We already addressed the economization in the application of constant capital in section 5.3, but only as something that reduces the cost of the product. Now it is clear that this also increases the rate of profit.

2. ECONOMIZATION IN THE PRODUCTION OF CONSTANT CAPITAL. If the value of the elements of constant capital decreases, then the value of constant capital also decreases, without necessitating any change in the concrete method of production. The increase in the rate of profit in one sphere is thus a result of an increase in productivity in another sphere.

3. ACCELERATION OF THE TURNOVER OF CAPITAL. If an individual capital turns over twice in a year, then twice as much surplus value is produced than in the case of a capital which, under otherwise identical conditions, only turns over once in a year. The rate of profit of the first capital would thus be twice as high as that of the second. Acceleration in the turnover of capital increases the rate of profit.

7.2 Average Profit and Prices of Production

One thing becomes obvious in light of the method described above for raising the rate of profit under an otherwise constant rate of surplus value: two capitals that produce with the same rate of surplus value have different rates of profit if they exhibit a different composition of capital \(c/v\) at an otherwise equal turnover time or if they exhibit different turnover times in the case of an otherwise equal composition of capital.

For clarification's sake, let's use a numerical example, assuming the rate of surplus value is a uniform 100 percent, while disregarding fixed
capital. The two capitals A and B shall have the same turnover time of one year. For capital A, \( c = 90 \) and \( v = 10 \); for capital B, \( c = 60 \) and \( v = 40 \). Then capital A should produce a surplus value \( s = 10 \), capital A's rate of profit amounts to \( 10/(90 + 10) = 10 \) percent. Capital B produces a surplus value of \( s = 40 \), the rate of profit here amounts to \( 40/(60 + 40) = 40 \) percent. The unequal composition of capital leads to different rates of profit: the higher the composition of value, the lower the rate of profit.

Now let's take a look at capital C, which has the same composition of value as capital A, but a turnover time of twice a year. Its surplus value is therefore \( 2 \times 10 = 20 \), and its rate of profit amounts to \( 20/(90 + 10) = 20 \) percent, whereas capital A only achieves a rate of profit of 10 percent. The shorter the turnover time, the higher is the (annual) rate of profit.

However, the composition of value and the turnover time of capital cannot be arbitrarily selected by the capitalists, but are bound by the concrete conditions within individual branches: in a steel mill, for example, considerably more constant capital in proportion to variable capital is employed than in the clothing industry. If commodities were sold "at their values," that is, if the normal prices of commodities were an adequate expression of the value of commodities, then there must be completely different rates of profits among the individual branches, even if the rate of surplus value, the exploitation of labor-power, is the same everywhere. The sole aim of capital is valorization. The sole interest of the owner of capital, insofar as he or she behaves like a capitalist, that is to say as capital personified, consists in achieving the greatest possible valorization of his or her advanced capital. If different branches offer different rates of profit, then capitalists will try to pull their capital out of branches with low rates of profit and invest their capital in branches with higher rates of profit. If the movement of capital between branches is possible (and not, for example, impeded by legal restrictions), then more and more capital will flow into branches with high rates of profit and out of branches with lower rates of profit. This leads to the amount of available commodities increasing in branches with high rates of profit and decreasing in branches with low rates of profit. Due to the competition between capitalists, the increasing supply in the branches with initially high rates of profit will on the one hand lead to decreasing sales prices
and ultimately declining profit rates, whereas on the other hand the declining supply in the branches with initially low rates of profit leads to a rise in prices and ultimately increasing rates of profit. The different rates of profit equalize into an average or general rate of profit.

The average profit attained by an individual capital is equal to the cost-price of a commodity (the costs of means of production and wages per commodity unit) multiplied by the average rate of profit. The prices of production result from the sum of the cost-price and the average rate of profit. If the disbursements for means of production amount to 100 euros, for wages 20 euros, and if the average rate of profit is 10 percent, then the cost-price of the commodity is 120 euros, the average profit 12 euros and the production price is 132 euros.

To the individual capitalist, this average profit appears to be a premium added to the cost-price. For him, the level of his individual profit appears to depend upon two quantities: the sales price “set by the market,” that is, the price at which he can sell the commodity and the level of the cost-price. If he can keep the cost-price down, such as through the increased use of machinery and the decreased use of labor-power (see section 5.2 on the production of relative surplus value), then he can add more than the average profit to the price—thus obtaining an extra profit—and still sell the commodity at its market price.

The actual profit of an individual capital, which can deviate from the average profit, thus seems on the one hand to depend upon objective conditions (market prices) and on the other hand upon the subjective skill of the capitalist in producing at a low cost of production. The fact that profit rests upon the appropriation of surplus labor is not apparent. Quite the contrary: if the individual capitalist manages to produce with a decreased amount of labor, then usually his profit will increase.

But in fact average profit is also dependent upon surplus value: not the surplus value of the individual unit of capital, but rather from the surplus value produced in the economy as a whole, that is, from the surplus value of the total social capital. The equalization of rates of profit to a general rate of profit means nothing other than a redistribution of the total social surplus value. If commodities were to exchange at their values, then every capitalist would receive the surplus value produced with the help of his individual
capital, and the profit rates of various capitalists would diverge widely. If commodities are exchanged according to prices of production, then every capitalist obtains a profit that on average is proportional to the magnitude of the capital he has advanced, meaning that each capital achieves on average the same rate of profit. The capitalists behave toward the average profit like share­holders in a corporation: the proportional profit is the same for everyone; each shareholder obtains a share of the business’s profits proportionate to the magnitude of his investment.

In the third volume of Capital, Marx sketched out a simple quantitative method of calculation to arrive from a system of value (meaning that for the various branches, \(c, v,\) and \(s\) are givens, and should be the same for all capitals within a branch) at a system of production prices. This method of calculation, however, has proven to be wrong. The fact that it contains an error was also noted by Marx (Capital, 3:265), but he underestimated the effects of this error. The “transformation problem,” the question as to how (and whether) magnitudes of value can be transformed into production prices, was discussed intensively in the last century (I deal extensively with this debate in Heinrich, 1999).

But within the framework of a monetary theory of value, there can be no point to any sort of procedure for calculating production prices from values. Rather, the “transformation of values into prices of production” represents a conceptual advancement of the form-determination of the commodity.

One can only speak of an exchange of values as long as the sole determining moment of exchange is the relation of individually expended labor to the total labor of society. For the individually expended labor to constitute value, the three acts of reduction consummated in exchange must be given (see section 3.3). The commodity in this case (that is, the commodity as dealt with in chapter 3) is a capitalistically produced commodity, but the examination of the commodity abstracts from the existence of capital.

The concepts thus gained—value, magnitude of value, money, etc.—constitute the categorical premise necessary for the depiction of the production and circulation processes of capital (see chapters 5 and 6). But capital as dealt with in these analyses is still not capital as it
exists in its empirical, individual manifestations. Only after capital is depicted as the unity of production and circulation are we at the point where we can deal with the fundamental properties of empirically existing individual capitals.

The transition from *value and surplus value to production price and average profit* is not a historical or even a temporal sequence, but rather a transition between different *levels of description*. At the level of value and surplus value, the capitalist socialization via exchange is conceived abstractly, and exchange is determined by the relationship of individually expended labor to the total labor of society; at the level of production price and average profit, exchange is determined by the relationship of an individual capital to the total social capital. Here it becomes manifest that exchange is not merely the socialization of commodity producers, but the socialization of *capitalist* commodity producers.41

7.3 The “Law of the Tendency of the Rate of Profit to Fall”: A Critique

In the late eighteenth and in the nineteenth century, the notion that the average rate of profit in the developed capitalist countries has a tendency to fall was considered an indisputable empirical fact, although the reasons for the fall of the rate of profit were subject to dispute. There can be many different causes for a fall in the rate of profit, rising wages, for example, or a rise in the price of raw materials. But those causes are of a rather coincidental and temporary nature: wages can once again decline, and raw materials can become cheaper, so that the rate of profit rises again.

What Marx intended to show under the rubric “law of the tendency of the rate of profit to fall” was that, independent of such temporary causes, there is a tendency for the rate of profit to fall “deriving from the nature of the capitalist mode of production itself” (*Capital*, 3:319). That is, disregarding all particular circumstances, the general properties of capitalist development should bring about a tendency of the rate of profit to fall. Whether or not Marx managed to provide proof of this is a topic of heated debate.
At the beginning of this chapter, it was pointed out that the rate of profit can be raised through the economization of constant capital or through the acceleration of capital turnover, but that the actual source of valorization is the exploitation of labor-power. In chapter 5 it was made clear that there are two fundamental possibilities for increasing the exploitation of labor-power: lengthening of labor-time ("production of absolute surplus value") and reducing the value of labor-power through an increase in the productivity of labor ("production of relative surplus value"). The lengthening of labor-time is, however, only possible within limits, thus the typically capitalist method for increasing exploitation is the production of "relative surplus value," and through the implementation of increasingly expensive machines at that. The constant revolution of production and the increasing displacement of human labor through the introduction of newer and more efficient machines—this is the picture given by the capitalist mode of production since the late eighteenth century. Such an accelerated development of the forces of production did not exist in any other mode of production preceding capitalism.

In chapter 5.2, it was shown that the individual capitalists introduce productivity increases in order to achieve an extra-surplus value (or rather, as we can now say, an extra profit above the average profit). This extra profit disappears when the increase in productivity is generalized. Then the value and the production price of the commodity respectively decrease. Insofar as the commodity enters into the consumption of working-class households, then the value of labor-power also decreases, so that as a result the rate of surplus value increases.

Marx intends to prove that the average rate of profit falls due to this typically capitalist method of increasing productivity: as a result of the ceaseless drive for extra profit, not only should there be a decreased value (or production price) of the commodity as a result of the generalization of the new conditions of production, but also (behind the backs and against the wills of the individual capitalists) a decline in the average rate of profit.

For Marx, the tendency for the rate of profit to fall and capitalist development of the forces of production are two sides of the same coin. If Marx had been able to conclusively prove the connection, then he would
have shown that a falling rate of profit belongs to the “essence” of capitalism. We will now take a detailed look at Marx’s argumentation.

If the average rate of profit falls, the individual rates of profit for all capital units do not necessarily have to fall. However, this must be the case for most of the largest individual capitals. If the falling rate of profit is in fact a typical tendency, then it must demonstrate itself in the case of a typical individual capital. Marx’s arguments refer to such a typical individual capital. Just as Marx did, we will remain in the following at the level of value (production prices entail additional complications), disregarding fixed capital and assuming a constant turnover time of one year. The product thus has a value of \( c + v + s \) and the rate of profit amounts to \( s / (c + v) \).

As discussed in chapter 5, as a consequence of increasing productivity via the implementation of machinery, the rate of surplus value \( s/v \) increases, as does the value-composition of capital \( c/v \). The quantitative development of these two magnitudes is decisive for the movement of the rate of profit. If one divides the numerator and denominator in the above formula for the profit rate by \( v \) (we are merely abbreviating the fraction by \( v \), thus not changing the numeric value of the fraction), then we obtain the following expression for the rate of profit:

\[
\frac{s}{c + v} = \frac{s/v}{c/v + 1/v} = \frac{s/v}{c/v + 1}
\]

Here, the rate of surplus value and the value-composition of capital are visible as determinants of the rate of profit.

Marx bases his arguments for the tendency of the rate of profit to fall upon a rise in \( c/v \). If \( s/v \) were to remain constant, then a rise in \( c/v \) would automatically lead to a decline in the rate of profit (the numerator of our fraction remains constant, the denominator increases, and thus the value of the fraction decreases). However, Marx claims that the rate of profit also falls in the case of an increasing rate of surplus value.

If both the rate of surplus value \( s/v \) and the value-composition of capital \( c/v \) increase, then the profit rate only falls if \( c/v + 1 \) (the denominator of our fraction) increases faster than \( s/v \) (the numerator). In order to prove that the rate of profit necessarily falls, it is not sufficient to prove that
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$c/v$ increases. One must also show that $c/v$ increases by a certain degree that the condition just named is fulfilled. And here lies the fundamental difficulty for every proof of the “law of the tendency of the rate of profit to fall”: a general statement about the degree of increase for $c/v$ is not possible. In one case, a specific increase in productivity can be achieved through a small quantity of additional constant capital; $c/v$ thus increases only a little bit, which can lead to the rate of profit rising, not falling, as a result of the increasing rate of surplus value. In another case, the same proportional increase in productivity may require a large amount of additional constant capital; $c/v$ thus increases strongly, and the rate of profit eventually declines.

Marx also does not attempt to directly prove that $c/v$ always rises to such a degree that the rate of profit falls. Instead, he starts with the amount of surplus value (the mass of surplus value). The total surplus value of a capital results from the average per capita surplus value multiplied by the number $N$ of workers, where the average per capita surplus value is equal to the rate of surplus value $s/v$ multiplied by the average per capita wage $V_k$. Thus, for the total surplus value:

$$ s = s/v \times V_k \times N $$

If the number of workers declines, then the surplus value produced is reduced. But if the rate of surplus value increases at the same time, then the decline in the number of workers can be compensated for and the same mass of surplus value is produced; this is only the case within certain limits, however, since the surplus value per capita cannot be arbitrarily large. This can be demonstrated using a simple example (see Capital, 3:356). If we assume that 24 workers perform two hours of surplus labor every day, then the total amount of surplus labor is 48 hours. But if the number of workers declines to two, then these two workers are not able to perform 48 hours of surplus labor per day, regardless of how large the rate of surplus value is. This conclusion can be generalized: if the number of employees declines beyond a certain critical mass, then at some point the amount of surplus value produced also declines, regardless of how strong the rate of surplus value increases.
Marx thought he had sufficiently proven the law of the tendency of the rate of profit to fall using this consideration. But that was not the case. A declining mass of surplus value \( s \) only indicates a fall in the rate of profit with certainty when the total capital \( c+v \) required for the production of this surplus value has not also fallen, but has at least remained constant. And Marx implicitly assumes this precondition in his example. But this assumption is not unproblematic. If, to stay with our example, instead of 24 workers only two are employed, then the amount of wages paid is correspondingly smaller. If the value of labor-power remains constant, variable capital would be reduced to \( 1/12 \) of its previous value. But since the rate of surplus value increases enormously, the value of labor-power is also drastically reduced, and the two remaining workers would expend much less than \( 1/12 \) of the previous variable capital. For the total capital to remain the same it is not sufficient for the constant capital \( c \) to increase, rather, it must increase by a certain amount; namely, it must increase by the same amount that the variable capital has been reduced. Whether or not this is the profit fall cannot be answered at such a general level: we don’t know whether the productivity increase has been implemented with a lot or a little additional constant capital.

If constant capital does not increase strongly enough to compensate the reduction of variable capital, than the total capital advanced declines. In this case, we have a declining mass of surplus value and declining capital. Whether the rate of profit falls depends upon what falls quicker, the mass of surplus value or the advanced capital. If the mass of surplus value falls quicker than the advanced capital, then the profit rate declines; if the advanced capital declines quicker than the surplus value, then the rate of profit increases despite the reduction in the mass of surplus value.

In contrast to Marx, we cannot assume a “law of the tendency of the rate of profit to fall.” This doesn’t mean that the rate of profit can’t fall, which may very well be the case. However, the rate of profit can also rise. A long-lasting tendency for the rate of profit to fall cannot be substantiated at the general level of argumentation by Marx in *Capital.*

Now the question is whether Marx’s critique of political economy really loses anything without the “law of the tendency of the rate of profit to fall.” Many Marxists regarded this “law” as the foundation of Marx’s
crisis theory, which is one reason why the debates were conducted with such vehemence. As we will see in chapter 9, Marx’s crisis theory does not require this “law.”

For Marx, the law expressed something more general, namely

that the capitalist mode of production comes up against a barrier to the development of the productive forces which has nothing to do with the production of wealth as such; but this characteristic barrier in fact testifies to the restrictiveness and the solely historical and transitory character of the capitalist mode of production. (*Capital*, 3:350)

Even without this, the limitations of the capitalist mode of production are already manifest in the fact that the development of the forces of production and the production of wealth are subordinate to the valorization of value, and this narrow goal unleashes a glut of destructive forces against humanity and nature. Whether the expression of value in the terms of capitalists and accountants rises or falls, it does not alter the fundamentally blinkered character of the capitalist mode of production.
8. Interest, Credit, and “Fictitious Capital”

8.1 Interest-bearing Capital, Interest, and Profit of Enterprise—
the Consummation of the Capital Fetish

For as long as money has existed, it has probably been lent at interest. Interest-bearing capital existed long before the entire economy was organized on a capitalist basis; we find it in the most diverse social formations, in the slaveholding societies of antiquity as well as in the feudal societies of the Middle Ages. In pre-bourgeois societies, kings and princes incurred debt as a means of financing their luxury consumption and wars; outstanding debts and interest were then paid back with money raised through taxes and conquest. But peasants and artisans experiencing financial hardship would go into debt; they had to pay back the debt by working, which in light of their penury and interest rates of 20 or 30 percent or more was often not possible. As a result, they lost their homes and farmlands. Expropriation by “usurers” was a widespread phenomenon. Lenders were perceived as “bloodsuckers,” and hatred for usurers was the consequence.

Under capitalist relations of production, that is, when production is also organized capitalistically, lending money occurs under completely different conditions. On the basis of capitalist production, a sum of mon-
ey can be transformed into capital, and one can expect that this capital will yield an average profit. Money is not, as it was under simple circulation, an independent expression of value and therefore exchangeable with every other commodity. Money is now potential capital:

In this capacity of potential capital, as a means to the production of profit, it becomes a commodity, but a commodity of a special kind. Or what comes to the same thing, capital becomes a commodity. (*Capital*, 3:459–60)

The sale of this unique commodity has a unique form: money is lent. What is “sold” is its ability (under capitalist conditions) to yield a profit within a specific period of time. The “price” paid for this unique commodity is interest. This interest is paid from the profit that was made with the help of the money.

Non-capitalists—such as wage laborers—also borrow money, whether as a result of financial difficulties or in order to finance consumption. These loans must then be paid back out of wages. Such “consumer credits” are quite meaningful and also play an important role in the course of the accumulation process, since they contribute to the stabilization of demand. But what is new in capitalism is that a large number of loans serve the *enrichment of the debtors*: they borrow money to *use it as capital*. This form of credit, which only existed as an exception in pre-bourgeois societies, is the typical form of credit for capitalist enterprises, and dominates all other forms. The special form of circulation of modern interest-bearing capital is therefore:

\[ M \rightarrow M \rightarrow C \rightarrow M' \rightarrow M'' \]

Modern interest-bearing capital (and in the following we refer only to this type, and will therefore leave out the adjective “modern”) is thus *advanced twice*: once by its owner to the industrial capitalist, and then by the industrial capitalist to finance a profit-yielding production process. There follows a *double return*: first to the industrial capitalist, and then from the industrial capitalist to the lender. The return to the industrial
capitalist contains a profit (in the case of successful valorization), and the return to the lender contains interest, which is paid from this profit.

The fact that interest is paid out of profit does not yet say anything about the rate of interest. Under “normal” capitalist conditions, the rate of interest will lie above zero (otherwise the lender of money would have no reason to lend it), but under the average rate of profit (otherwise, the industrial capitalist would not demand additional capital). The rate of interest at any given time will depend upon the levels of supply and demand; a “natural” interest rate or a “natural” relationship between the rate of interest and the average rate of profit does not exist.

Marx refers to the capitalist who owns interest-bearing capital as the money-capitalist, whereas the capitalist who borrows this capital is the functioning capitalist, in whose hands the interest-bearing capital becomes functioning capital within the reproduction process. Each functioning capital yields a certain profit, the gross profit, the amount of which can be above or below that of the average profit. Interest is paid from this gross profit, and what remains is the profit of enterprise (Unternehmergewinn) received by the functioning capitalist.

The division of gross profit into interest and profit of enterprise is initially just a quantitative division. However, this quantitative division consolidates into a qualitative one that even capitalists who don’t borrow capital include in their deliberations.

The money-capitalist is the owner of interest-bearing capital. He receives interest for putting his property at the disposal of others. Thus interest appears to be merely the fruit of the ownership of capital, capital that seems to exist outside of the production process. In contrast, profit of enterprise seems to be the result of capital functioning in the production process. Interest and profit of enterprise therefore appear to be qualitatively different amounts, originating from different sources. This illusion is strengthened by the fact that the rate of interest develops on the market as a uniform quantity, not dependent upon individual capitalists, whereas the rate of profit of an individual capital (and therefore also that of the respective profit of enterprise as a surplus above the rate of interest) can definitely be affected by measures taken by functioning capitalists (reducing costs of the means of production, shortening turnover time, etc.; see section 7.2).
The distinction between interest and entrepreneurial profit is also relevant for the capitalist who does not use borrowed capital: he has the choice of lending his capital and therefore obtaining merely the interest, or allowing it to function in the production process. However, the result of this functioning appears for all intents and purposes as profit of enterprise, and not as the total profit, since he would have obtained the interest anyway. The capitalist class as a whole is not able to choose the manner in which it uses its capital—without functioning capitalists, no interest at all could be paid—but the individual capitalist definitely has the choice.

Interest is an expression of the valorization of capital, the exploitation of labor-power, but capital stands in antagonism to wage-labor only within the exploitation process. In the case of interest-bearing capital, this antagonism is no longer visible, because capital is interest-bearing as property, outside of the production process. The money-capitalist does not confront the wage-laborer, but confronts the functioning capitalist who borrows capital. Interest expresses capital's capacity for appropriating the product of external labor, but it expresses this capacity as a characteristic of capital that inheres to it outside of the production process and independent of the determinate capitalist form of production.

But the functioning capitalist also seems not to stand in an antagonistic relationship to the wage-laborer. The profit of enterprise gained by the functioning capitalist appears to be independent of capital-property (this is already paid through interest), and is regarded as the result of functioning within the production process, a production process that seems not to exhibit any capitalist determinations but appears as a mere labor process. According to this perception, the functioning capitalist obtains the profit of enterprise not as an owner, but rather as a particular type of worker—a worker responsible for the supervision and administration of the labor process. The work of exploitation and exploited labor both count as labor. As a result:

The social form of capital devolves on interest, but expressed in a neutral and indifferent form; the economic function of capital devolves on profit of enterprise, but with the specifically capitalist character of this function removed. (Capital, 3:506)
What is peculiar to interest-bearing capital is not interest—this is merely a particular expression of the valorization of capital—but the seemingly unmediated form of this valorization as expressed in the equation \( M - M' \): money appears to multiply all by itself. Marx therefore referred to interest-bearing capital as the "most superficial and fetishized form" (Capital, 3:515) of the relations of capital (for how the capital fetish emerges from the capitalist process of production, see section 5.3), because

the social relation is consummated in the relation of a thing, money, to itself. [... ] Thus it becomes as completely the property of money to create value, to yield interest, as it is the property of pear-trees to bear pears. (Capital, 3:516)

Accompanying this "most fetish-like form" of the capital relation historically is a series of truncated critiques of capitalism that all amount to criticizing not the capital relation itself, but merely the existence of interest, thus disregarding the connection between interest and the capital relation. The collection of interest was, on the one hand, contrasted to "productive" capital and criticized on moral grounds as a form of income that is not based upon one's own effort. On the other hand, the existence of interest was declared to be the root of all evil in society: all of society is enslaved in order to ultimately pay interest to the owners of money (see connection to anti-Semitism, section 10.2).

8.2 Credit Money, Banks, and "Fictitious Capital"

In the previous section, we examined the form-determination exhibited by interest-bearing capital as distinct from industrial capital, as well as the inverted perceptions arising from it. Now we must concern ourselves with the historically changing institutions that mediate the movement of interest-bearing capital: the banks and capital markets. Banks are brokers of credit transactions. On the one hand, they receive deposits from owners of money, and, on the other, they lend money. The
deposit rate of interest paid by banks is smaller than the interest rate charged by banks when they make loans. The bank’s income comes from the difference. Whatever remains after deducting the costs is the banking profit.4

But banks are not just passive intermediaries that transport money from one hand to another. Banks also “create” money: credit money.

Credit money is a promise to pay that itself performs functions of money. Credit money already comes into being when person A borrows 100 euros from person B and signs a promissory note that remains with B (if the note has a fixed, relatively short-term date of payment, one speaks of a bill of exchange). This promissory note is a promise to pay from A. If B now purchases a commodity from person C and C accepts this promissory note as a means of payment, then A’s promise to pay has functioned as money. Alongside the original 100 euros in cash (the “real money” with which A can make purchases), an additional 100 euros of credit money (with which B makes a purchase) is also in circulation. This credit money emerges “from nothing” with the granting of a loan and vanishes again “into nothing” with the redemption of the promise to pay. The promissory note is wiped out.

As a rule, it is not only promises to pay by private individuals that are circulated, but also those of banks or institutions similar to banks, like credit card companies. If I pay for a purchase with a check or credit card, then the seller does not receive actual money from me, but rather a promise to pay—namely, the formal guarantee that he or she will receive money from the bank or credit card issuer upon presentation of the check or sales draft, respectively. However, I am not the one who guarantees this promise; the bank does.47

Credit money results from every deposit at a bank: if I deposit 100 euros cash into my bank account, then the bank has 100 euros in its reserves (and can lend it, for example, to make a loan); at the same time my account balance, which I may dispose of via check or bank transfer, increases by 100 euros. Thus, in addition to the 100 euros that was moved from my pocket into the bank’s reserves, 100 euros of credit money have accrued to my bank account.

Now if the seller that I have paid by check uses the check to credit his account, the credit money was merely transferred from my account to his
and can continue to function as credit money. Only if the seller cashes the check (that is to say, requests cash from the bank’s reserves) is credit money eliminated. In actual fact, the bank (barring legal regulations) only has to keep on hand a small fraction of the 100 euros I deposited, in the form of cash reserves (enough to satisfy average demand), and the rest can be used. But since most payments are cashless payments between bank accounts (and since most loans are not made in cash, but as credit money), the amount of money the bank has to keep on-hand is a small fraction of the credit money it creates.

In order to make loans, banks are not solely dependent upon deposits. They can also borrow money from state central banks. The central banks are the only institutions allowed to print money. In an economy no longer tied to a money commodity, central banks “create” real money (“real” as opposed to credit money, which is only a promise to pay money). The central bank is not bound by any formal limits concerning this money creation.

As long as the money system was still tied to a money commodity (for example, gold), banknotes were not real money, only stand-ins, and the issuing of treasury notes by central banks was still restricted by regulations. The issuing of money had to be covered to a certain amount by the gold reserves of the central bank. If a demand was made to convert notes into gold, gold reserves decreased and the central bank could only issue a smaller number of notes. Precisely in crisis situations, there was a run on gold at the same time the need for credit grew, so that the banks required more banknotes. The run on gold made an increase in the issue of banknotes impossible without suspending regulations. The money commodity proved to be an avoidable impediment to capitalist reproduction. Since the monetary system today is no longer tied to a money commodity (see the conclusion of section 3.7), this impediment no longer exists. Without a money commodity, the banking system can react more flexibly than before during crises—however, this does not mean that crises themselves can be avoided (see chapter 9 regarding this point).

Contrary to the position of Marx that the existence of a money commodity is unavoidable in capitalism, it is clear that a monetary system tied
to a money commodity is in no way a property of capitalism at its “ideal average” (for more on this point, see Heinrich, 1999, 302).

On the capital market, borrowers and lenders of money enter into a direct credit relationship with one another. Borrowers, above all large enterprises and states, get money directly from money owners and promise in return to pay a fixed annual interest as well as the principle at a fixed date. In return for making the loan, lenders receive a security or bond in which conditions are stipulated (because of the fixed interest rate, one speaks of a fixed-interest security). Since the loan comes off without the aid of any bank, lenders and borrowers can share among themselves the difference between the rate of interest on bank deposits and the interest rate for loans offered by the bank: the interest rate on securities is normally lower than the interest rate for loans offered by banks and higher than the rate of interest on bank deposits. However, the lender now shoulders the burden of risk entirely: if the enterprise to which he has lent money goes bankrupt, he loses his money. For that reason usually only large enterprises assumed to remain solvent are in a position to issue bonds. On the other hand, if an enterprise or individual borrowing from a bank goes bankrupt, this reduces the bank’s profits, but does not affect deposits as long as the bank itself does not go bankrupt.

Securities are not the only means through which business can obtain money on the capital markets. They can also do so by issuing stocks. Through the purchase of a stock, one acquires a share of the respective enterprise, becoming a co-owner. Similar to fixed-interest securities, the stock constitutes a claim: the owner of the stock is entitled to vote at shareholders’ meetings and to a slice of the distributed earnings (called dividends), both proportional to the individual’s percentage of the entirety of shares. However, there is no entitlement to the repayment of the price of the stock by the enterprise, and the level of distributed gains is also not fixed, but depends upon the course of business.

Fixed-interest securities and stocks can be sold on the capital market. They have a price, their respective market price or share price (one can read the previous day’s stock exchange quotations in the business pages of major newspapers). However, these papers have no value, but constitute mere claims on value (interest and dividends). What are traded are claims:
after the sale the enterprise no longer pays interest or dividends to Person A, but to Person B. In everyday life, as well as in the dominant economic theories, no distinction is made between price and value: the market price of the stock or fixed-interest security counts as its "value."

The amount the owner of a fixed-interest security obtains for its sale (the market value) depends upon the current market interest rate. Let’s assume that A bought a security from business Y in the last year and paid 1,000 euros for the right to be paid 50 euros annually for ten years and the original principle of 1,000 euros at the end of this ten-year period. Person A has thus purchased a bond with the nominal value of 1,000 euros and an interest rate of 5 percent (relative to the principle). Now let’s further assume that in the next year, interest rates climb to 7 percent. That means that for any new bond costing 1,000 euros, the annual interest payment is 70 euros. If A now wants to sell his bond, he won’t find anyone who will pay him 1,000 euros for it, since the interest payment is fixed at 50 euros. Person A will only be able to sell the bond if he settles for an amount less than 1,000 euros; the market value of the bond falls below the nominal value when interest rates rise. In the case of falling interest rates, the market value would rise above the nominal value.50

Likewise in the case of the sale of stocks: here the share prices are constantly changing. But their movement is not decided solely by the current dividends, but also by the future profits of the business. Dividends play only a secondary role, since only a tiny portion of the profit is doled out to shareholders in the form of dividends—the greater portion is invested. However, the future profit is never a certainty, but rather an expected quantity. If the expectations of profits increase, then the share prices also increase; if expectations decline or if there is great uncertainty concerning them, then the share prices decline. In this respect, the course of the share price does not express contemporary developments, but rather, expectations concerning future developments.

The circulation of securities and stocks constitutes an act of duplication similar to credit money. In the case of credit money, payment promises circulate alongside real money, whereas in the case of stocks and bonds, we are dealing, on the one hand, with real capital flowing from investors to a business and used by the latter, and on the other hand, a
claim on interest or the payment of dividends that is traded and circulated at fluctuating market prices.

Due to their specific “value determination” (meaning the determination of market value outlined above), Marx refers to these circulating claims, securities, and stocks as fictitious capital. This term does not mean that these claims cannot be redeemed. Rather, it refers to the fact that the real capital the owner originally possessed in the form of money has been advanced only once, during the purchase of stocks and bonds. After that, it is possessed by the business and is advanced by it. Securities, stocks, and bonds represent mere claims to certain payments; their “value” (the market price) has nothing to do with the amount of value originally paid for these claims (now this amount of value exists in the form of, for example, productive capital within an enterprise, or in the case of government bonds, has been spent by the state). The “value” of such claims is an arithmetic value, which, in the case of fixed-interest securities, rests upon the relation between the interest rate of the security and the current market rate of interest, and which in the case of stocks rests upon profit expectations. The extent to which this “value” is constant and leads to corresponding payouts in the long term depends upon the actual profits of the respective enterprise.

Since profit expectations can change quickly, the course of stocks can also change quickly. For that reason, during a single trading day, billions of euros in market value (that is, billions in fictitious capital) are destroyed on the market in the case of rapidly declining share prices, and billions of euros in market value are created in the case of strongly increasing share prices. These amounts are not reserves that can be destroyed or newly created and hypothetically invested for other purposes, but rather are arithmetic valuations of commercial papers. However, these fluctuations are also not insignificant occurrences. If shares and bonds are used as collateral for loans, then the collateral is devalued in the case of declining market prices. The borrower then has to offer further collateral or pay back the loan; if he can’t do that, he goes bankrupt. If the bank experiences too many such defaults, it is also threatened with bankruptcy.

Expectations have a tendency to reinforce themselves over a period of time: if share prices rise, many people want to hop on the bandwagon, the
demand increases, share prices rise further, and even more money owners want to jump on the bandwagon; if share prices fall, then many people want to get rid of their stocks, the supply increases, share prices further decline, etc. Strong oscillations in performance are the consequence: a bull market (strongly rising share prices) is followed by a bear market (falling prices).

8.3 The Credit System as a Regulating Instance of the Capitalist Economy

We can sum things up by referring to banks and capital markets as the credit system. The movement of interest-bearing capital mediated by this credit system is not a mere addition, a "superstructure" resting atop industrial capital. Although, as will be made clear shortly, interest-bearing capital emanates from the circulation of industrial capital, the movement of industrial capital is not at all possible without credit.

In chapter 3, we emphasized that Marx's value theory is a monetary theory of value: the commodity and value cannot exist and also cannot be conceptualized without reference to money. The same can be said concerning the relationship between capital and credit. However, within traditional Marxism, a non-monetary theory of value was dominant, as was a conception of credit that reduced it to a mere appendage that was unnecessary for the existence of capital, and unnecessary for an understanding of capital.

In the circulation of industrial capital there emerges an array of funds that consist of temporarily "idle" capital: as a result of the sale of commodities, advanced capital returns that cannot be immediately employed as capital. Most important are accumulation funds (surplus value to be invested, but only at a later time, because for example a minimum amount is required for investment) and sinking funds (in which the value elements of fixed capital are collected; see section 6.2). Until they are invested, such funds can be used as interest-bearing capital.

Instead of waiting for these funds to fill up, a portion of accumulation as well as the renewal of fixed capital can be financed through credit,
so that the ensuing returns do not flow into an accumulation or sinking fund, but toward the payment of interest and principle on the loan.

Ultimately, the circulation of surplus value (that part of the total social product with a value corresponding to the total social surplus value) is not possible without either the existence of reserves or the issuing of loans: disregarding fixed capital, the capitalists of a single country advance capital with a value \( c + v \) in the course of a year, but produce products with a value of \( c + v + m \). The question is thus posed as to where the money to pay for the products comprising the value of \( m \) should come from. One possibility consists in a part of the capitalists possessing a reserve fund in addition to the capital advanced for production. They could then purchase a portion of \( m \), and the capitalists that have sold this portion can in turn use this money to purchase commodities from the first group of capitalists, so that at the end of the process all of the products have been sold and the reserves return to their original owners. However, a reserve fund existing only to facilitate circulation implies forgoing the chance to valorize this sum. If capitalists follow the maxim of the greatest possible valorization of capital, then they will not possess such a reserve, but will instead finance the corresponding purchases by means of short-term loans.

It is thus the circulation of capital that generates temporarily idle capital on the one hand and the demand for credit on the other hand. The volume of credit increases with the growth of total social capital. The mere growth of credit transactions is itself not a sign of capitalist crisis or instability.

A developed credit system makes it possible for an individual capital to forgo the accumulation of reserves and lend out idle capital. But by taking out a loan, an individual capital has the possibility to accumulate far more than merely the profits of the previous period. Thus for a capitalist enterprise, a certain amount of debt is in no way "unhealthy" or a sign of weakness. In precapitalist societies, producers usually went into debt only as a result of emergencies and more often had problems paying the interest on loans. Under capitalist relations, credit serves primarily to finance additional accumulation: credit should raise the rate of profit as measured by the equity of a single capital. Let us assume the average rate
of profit is 8 percent and the market rate of interest to be 5 percent. If a capitalist invests a million euros, he can only expect a profit of 80,000 euros. If he borrows a further million and this second million also yields the average profit, then our capitalist obtains an additional 80,000 euros, from which he has to pay back 50,000 euros as interest to the lender of the second million. His total profit amounts to 80,000 plus 30,000, or 110,000 euros: his own capital (the first million) has brought in, as a result of the loan, not just the average profit of 8 percent, but 11 percent. This increase in the rate of profit is the primary motive for taking out loans. If expectations are not fulfilled—whether because an individual venture fails, or while the general economic situation deteriorates—then it may come to pass that the actual rate of profit obtained lies below the official rate of interest. In this case, the borrowed capital has not yielded an additional profit but a loss (the difference between interest and profit).

Further, the existence of credit also has effects upon the total social capital. The movement of capital between branches, through which the equalization of profit rates occurs (see section 7.2), essentially consists of a change of credit flows, so that in one branch a lot is accumulated, while in others less is accumulated; the shift of already invested capital would otherwise be considerably more difficult and above all time-consuming. Credit and a developed credit system make it possible to concentrate and redirect enormous masses of capital in a short period of time. Often this is just what is required for the accelerated development of new forces of production, since the introduction of new technologies usually demands considerable initial investments.

The existence of the credit system makes it possible not just for individual capitals, but for the total social capital to accumulate more than just the profits of the previous period, insofar as the objective conditions of accumulation are in place. An expansion of lending can thus also lead to a considerable surge of accumulation (just as restrictive lending can choke off the accumulation process). To this extent, the credit system constitutes a structural regulating instance of the capitalist economy. Capitalists are anxious to invest as much capital as possible in spheres where the highest rate of profit is expected. Since these investments as a rule are at least partially financed through loans or the issue of shares, the
extent to which the movement of capital goes smoothly and the speed of accumulation fundamentally depend upon the credit system, that is, the banks and capital markets.

The credit system grants accumulation its flexibility. It “accelerates the material development of the productive forces and the creation of the world-market,” but it is also the “the principal lever of overproduction and excessive speculation in commerce” (Capital, 3:572). The regulation of accumulation by the credit system is a thoroughly crisis-prone process. The granting of credit, but above all the trade in stocks and bonds, “live” on expectations and insecurity. “Speculation” must occur, and this speculation can also fail and lead to the destruction of the invested capital. On the financial markets, this can lead to speculative “bubbles” (excessive share prices) and the subsequent “crash” (a sudden fall in prices), but before the crash one never knows for sure whether it is a bubble or whether high share prices are indicative of an increase in the profitability of the respective capitals.

It would be wrong to oppose “speculative” financial markets to a “solid” capitalist production. Every act of capitalist production contains a speculative element, since no capitalist can be completely sure he will realize his value or at what price. Speculation on financial markets is more obvious and rapid, but in no way something qualitatively different from capitalist production. Both proceed from necessarily uncertain expectations and both attempt to achieve the same thing through the trade in their respective products: the maximization of profit.

However, the relationship between financial markets and industrial production is not constant in either a quantitative or qualitative respect. This relation can be different in various countries, and can also change in the course of capitalist development. Thus discussions concerning the metamorphoses of the financial markets constitute one of the central threads of the debate in the past few years concerning globalization.
9. Crisis

9.1 Cycle and Crisis

Severe disruptions in the economic reproduction of a society are referred to as an economic crisis. In a capitalist economy, this means that a large number of the commodities produced are no longer sellable: not because there is no existing need for the corresponding products, but because there is no demand backed by buying power. Commodity capital can no longer be completely transformed into money capital, so that the advanced capital is poorly valorized and accumulation decreases. The demand on the part of capitalist enterprises for the elements of productive capital—means of production and labor-power—also decreases. Mass unemployment and a decline in the consumption of the working class are the consequences, thus leading to a further decline in demand that further intensifies the crisis.

Capitalism is not the only mode of production in which massive poverty exists alongside enormous wealth, but it is the only mode of production where a surplus of goods constitutes a problem: unsellable goods lead to the ruin of their owner while people who need these goods the most are unable to sell the only thing they possess: their labor-power. The reason is that capital has no need for their labor-power, since it cannot profitably make use of it.
Ever since the early nineteenth century, when industrial capitalism became dominant in England, and then in France, Germany, and the United States, crises occurred in the developed capitalist societies at roughly ten-year intervals. Periods of accelerated accumulation with high rates of profit and increasing wages were followed by stagnation and crisis, which ultimately culminated in an initially slow, and then accelerated recovery of accumulation.

In the twentieth century, this cyclical development continued, but the cycles were increasingly less pronounced than before. The importance of super-cyclical developments increased: with the global economic crisis of 1929, a long period of economic depression set in that was only surmounted in the 1950s, and in North America and Western Europe gave way to the long boom of the 1950s and 1960s, which rested on "Fordism" (see section 5.5). This Wirtschaftswunder capitalism brought not only high profit rates but also full employment and an extension of the welfare state in the leading capitalist countries. In this phase there were also still cycles, but without acute crises. The capitalism known to Marx, which was characterized by crises, unemployment, and impoverishment, seemed to have been transcended, at least in the capitalist metropolises. But this state of affairs changed fundamentally with the global economic crisis of 1974–75: the Fordist model of accumulation with its "cheap" methods of increasing productivity (Taylorism and mass production) had reached its limits, profit rates declined, and cyclical movements increased in strength, although even in periods of recovery growth rates were modest and unemployment remained high. Profit rates recovered in the 1980s and 1990s primarily as a result of stagnating or declining real wages as well as comprehensive tax cuts for businesses and wealthy individuals that were financed primarily by cuts in social expenditures.

There can be no doubt that the course of capitalist development in the last 180 years was de facto marked by crisis. However, the answer to the question as to the causes of these crises is subject to debate. The majority of classical political economists as well as contemporary exponents of neoclassical economics would dispute that crises are a result of the fundamental mechanics of capitalism. For classical and neoclassical economists, crises are caused by "external" influences (for example, state
economic policies), but the capitalist market economy per se is free of crisis. Only John Maynard Keynes (1883-1946) attributed recurrent mass unemployment to causes intrinsic to capitalism (Keynes, 1936), thus laying the cornerstone for "Keynesianism."

In contrast, Marx attempted to prove that crises result from the capitalist mode of production itself and that a crisis-free capitalism is impossible. However, one cannot find a comprehensive theory of crisis in Marx's work, but rather scattered, more-or-less elaborated observations that have been worked up by Marxists into quite distinct theories of crisis.

With the analysis of money as a means of circulation, Marx had detected in the mediation of exchange by money the general possibility of crisis: one can sell one's own commodity without necessarily buying another commodity with the money thus earned; by holding on to the money, the process of reproduction is interrupted (see section 3.7; and Capital, 1:208-9). "Say's Law," which claims there is a necessary equilibrium between buying and selling or that supply necessarily induces an equal demand, is only valid when the circulation of commodities (mediated by money) is equated with direct barter: only then does each "sale" coincide with a simultaneous "purchase." Thus when classical and neoclassical economics purport to substantiate the claim of an inherently crisis-free capitalism, they basically assume a capitalism without money.

It must be explained how an actual crisis results from the mere possibility of crisis, why the chain of reproduction is interrupted. Of the various Marxist approaches to this question, considerations based upon the "law of the tendential fall in the rate of profit" (see section 8.3 above) played an important role in traditional Marxism: as a result of the falling rate of profit, the profit mass will also eventually fall, so that accumulation increasingly slows down and ultimately leads to crisis. This apparently close tie between crisis theory and the "law of the tendential fall in the rate of profit" was usually behind the vehement defense of this law. However, Marx's decisive arguments concerning the theory of crisis are completely independent of this "law."

In the first volume of Capital, Marx had already identified the production of relative surplus value as the fundamental tendency of capitalist development: decreasing the value of labor-power by increasing the pro-
ductivity of labor. The most important method for developing the productivity of labor is the introduction of increasingly improved machinery (see sections 5.2–5.3). The cost-saving introduction of machinery is mostly tied to the extension of the volume of production. An increase in productivity is therefore accompanied by an increase in the quantity of goods produced, which is further intensified by the necessities of competition (the need to be the first to flood the market with goods; the need to anticipate the devaluation of the means of production by attempting the fastest possible exhaustion of their productive capacity). The tendency for an unlimited extension of production confronts an ability to consume in society that is limited in a variety of ways, which Marx makes clear in volume 3 of *Capital* (352ff.).

The total social consumption is not limited to the individual consumption of end consumers. It consists of the consumption of the working class, the luxury consumption of the capitalists, and investments, or more precisely the replacement investments that replace used up machinery, and the expansive investment through which additional means of production are acquired, that is, through which capital is accumulated.

The consumption of the working class is constricted by the logic of capital valorization: capitalists attempt to keep wages, as well as the number of employed laborers, as low as possible, since for an individual capitalist the wage is merely an expense factor. “Underconsumptionist” theories of crisis are based upon this constricted power of consumption of the working class. As an explanation for the existence of crises, the argument of excessively low wages and the resulting “demand gap” is insufficient: wages are always lower than the total value of the product (this total value is equal to $c + v + m$, whereas wages are only equal to $v$). Wages—whether high or low—are never sufficient enough to constitute the demand for the total product.

In addition to the consumption demand of the working class there also exists the luxury demand of the capitalists, which is low relative to the total economy, however, so we can neglect it here. Finally, there is investment demand. This is the decisive variable: the demand of capital for additional means of production depends upon it, as does, indirectly, the further development of the consumption of the working class, insofar as
additional labor-power is employed or not. Whether investments in pro-
ductive capital (means of production and labor-power) are high or low
depends, on the one hand, upon the expected profit—if only a small profit
is expected, then investment is held back—and on the other hand, upon
the difference between the expected rate of profit and the rate of interest.
The individual capitalist, albeit not the capitalist class as a whole, always
has the choice of investing his capital in productive capital or of employ-
ing it as interest-bearing capital. Investment in fictitious capital increases
relative to investment in productive capital when interest rates are high or
when expectations of a rise in share prices increase.

So capitalist production and capitalist consumption are not just dif-
derently determined. Rather, their determining factors are also downright
antagonistic: a potentially unlimited production confronts a limited con-
sumption (limited not in terms of human needs and desires but by the
logic of valorization). The consequence is a tendency toward the over-
production of commodities (overproduction relative to buying power) and
the over-accumulation of capital (accumulated capital that either cannot
be valorized at all, or only very poorly), which ultimately leads to crisis:
reproduction stagnates, invested capital is devalued or even completely
wiped out, the least profitable production facilities are closed down, the
least profitable individual capitals go bankrupt, workers are laid off and
wages decline with the rise in unemployment. Crises are also enormous
processes of destruction: social wealth is annihilated and the living con-
ditions of a large number of people worsen considerably.

However, it is precisely these destructive moments that violently
eliminate the imbalance between production and social consumption.
Crises do not have only a destructive side; for the capitalist system as a
whole they are quite “productive”: the destruction of unprofitable capi-
tals reduces production, and the devaluation of functioning capital and
low wages increase the rate of profit for the remaining capitals. Ultimately,
interest rates once again decline, since the demand for borrowed capital
also decreases. All of these factors combined clear the way for a renewed
upturn, which is often supported by the introduction of technological
improvements: an increased demand for new machinery stimulates in-
vestment in Department I (the sector producing means of production)
and as a consequence of rising employment also accelerates accumulation in Department II (the sector producing means of consumption). A new upturn begins that ultimately culminates in the next crisis.

So crises are not just destructive. Rather, in crises the unity between spheres (such as production and consumption) that belong together but become independent of one another (production and consumption follow different determinations) is violently restored. Marx makes constant reference to the fact that crises perform a valuable service for the capitalist system precisely by means of these acts of destruction (see, for example, Capital, 3:357, 419).

Even if it is possible to figure out the mechanisms of crisis in general, crises themselves cannot simply be prevented. For one thing, the pressure of competition forces individual capitalists to engage in specific behavior, even if they know that this behavior has altogether destructive effects—but no individual can simply opt out, and the sole hope consists in emerging relatively unscathed. For another thing, the specific period of the cycle of crisis in which one finds oneself can never be determined with certainty. Is the economy still in a period of upturn, and will this continue, so that an extension of production is still worthwhile? Or has the state of overproduction already been reached, and will it make itself felt in a sales slump? It is precisely the constant development of the forces of production through the introduction of new methods of production—forced upon every producer who wishes to assert his or her presence on the market—that leads to shifts in demand flows. New branches emerge, old ones disappear or lose their importance, machines and raw materials that were previously important are no longer so, old enterprises are devalued, new ones emerge without certainty as to whether they will yield profits at the expected level. The only thing certain in this economic turmoil is uncertainty. The sole chance for surviving as a capitalist under such circumstances consists in using all possibilities for increasing profit, regardless of the consequences. Within capitalism, crises cannot be avoided, even if one can more or less figure out the developments that will lead to crisis.

At the general level of depiction intended by Marx in Capital, nothing further can be said concerning the concrete development of specific crises. The progression of specific crises is dependent upon the respec-
tive concrete circumstances, such as technical and operational developments, the structure of the credit system, the position of a country on the world market (a priority for capital particularly in times of crisis), the organization of the working class and its struggles, and the manner of state intervention in the business cycle. This is not only true for the course of the usual economic cycle of roughly ten years, but particularly for long-term, super-cyclical developments. At this point, we reach the limits of Marx’s intended depiction of the capitalist mode of production at its “ideal average.”

9.2 Is There a “Theory of Collapse” in Marx’s Work?

Because of their destructive sides, economic crises were often regarded in the classical workers’ movement as an existential threat for capitalism. The possibility for economic crises leading to a crisis of the political system was conceived as follows: in light of the difficulties of economic reproduction, political power relationships would lose their legitimacy, and people would begin to rebel. In the early 1850s, Marx saw the revolutionary movements that shook Europe in 1848–49 as a consequence of the heavy economic crisis of 1847–48. Somewhat hastily, he generalized this result and expected the next revolution to come with the next crisis (MECW,10:510). The following economic crises made it clear that there is no necessarily direct connection between crisis and revolutionary movement. Since the twentieth century at the very latest, we have learned that the insecurity brought about by dramatic economic crises can also provide a breeding ground for nationalist and fascist movements.

In the history of the workers’ movement, the notion that economic crises would ultimately lead to the collapse of capitalism, that capitalism was marching toward its “final crisis,” was widespread. *Capital* was interpreted as providing a “Marxian theory of collapse.” We can find this idea in the old German Social Democratic Party before 1914, in the work of Rosa Luxemburg, and in an elaborated form in the work of Henryk Grossmann. In Germany in the 1990s, this old idea was revived by Robert Kurz and the group “Krisis.”
In the third volume of Capital, Marx speaks of the “barriers” of the capitalist mode of production, but not in the sense of a temporal end. A “barrier” should be understood here as a restriction: capital develops the forces of production to an extent unknown in previous modes of production, but this development merely serves the small-minded aim of the valorization of capital.

The true barrier of capitalist production is capital itself. It is that capital and its self-expansion appear as the starting and finishing point, as the motive and the purpose of production; production is only production for capital and not the reverse, i.e. the means of production are not simply means for a steadily expanding pattern of life for the society of the producers. (Capital, 3:358)

Marx then speaks of a “persistent conflict” between the unrestricted development of the forces of production and the restricted capitalist aim—but there is no mention of a “collapse” of any sort.

In only one single passage—not in Capital, but in the earlier Grundrisse—do we find a comment that could be interpreted as a theory of collapse. Marx notes that within the context of the increasing importance of the application of science to the productive process it is no longer primarily the labor expended in the production process that is of significance, but rather the application of science, the “general productive force.” Marx thus draws the conclusion of a “collapse” of the whole mode of production resulting from these changes within the capitalist process of production:

As soon as labour in its immediate form has ceased to be the great source of wealth, labour-time ceases and must cease to be its measure, and therefore exchange value [must cease to be the measure] of use-value. The surplus labour of the masses has ceased to be the condition for the development of general wealth, just as the non-labour of the few has ceased to be the condition for the development of the general powers of the human mind. As a result, production based upon exchange value collapses. (MECW,29:91)
In his later works Marx does not return to this idea from the *Grundrisse*. On the contrary, Marx implicitly rejected his former arguments for a collapse. First, the significance of science for the capitalist production process is dealt with in many passages of the first volume of *Capital*, but the “separation of the intellectual faculties of the production process from manual labour” (*Capital*, 1:548) is not regarded as weakening the capitalist mode of production, but as a force for increasing the power of capital over labor (see section 5.3).

Second, the value side of this process, the fact that increasingly less labor must be expended in the process of producing a single commodity, is not regarded in *Capital* as a tendency toward collapse but as the foundation for the production of relative surplus value. The apparent contradiction that so astonished Marx in the *Grundrisse*, that capital “striving to reduce labour time to a minimum, while, on the other hand, positing labour time as the sole measure and source of wealth” (MECW, 29:91), which is elevated by contemporary representatives of “collapse theory” like Robert Kurz to a “logical self-contradiction of capital” necessarily leading to capitalism’s collapse, is casually deciphered by Marx in the first volume of *Capital* as an old riddle of political economy with which the eighteenth-century French economist Quesnay had harried his opponents. This riddle, according to Marx, is easy to grasp when one considers that the individual capitalist is not concerned with the absolute value of a commodity, but with the surplus value (or profit) that the commodity brings in. The labor-time necessary for the production of a single commodity can decline; the value of the commodity decreases, as long as the surplus value or profit produced by the capitalist’s capital increases. Whether the surplus value/profit is apportioned among a small number of products of high value or a large number of products with a smaller value is therefore insignificant (*Capital*, 1:437).

Even disregarding all the detailed objections, theories of collapse are confronted with the fundamental problem that they claim an inevitable developmental tendency that capitalism is so unable to deal with that its further existence necessarily becomes impossible—regardless of whatever happens in the actual course of history.
For the left, the theory of the collapse of capitalism has historically always had an excusatory function: regardless of how bad contemporary defeats were, the opponent's end was a certainty. To criticize such theories of collapse means in no way to defend capitalism (as some representatives of collapse theory maintain); such a critic just aims to fight against capitalism without illusions that rest on badly founded theories.
10. The Fetishism of Social Relations in Bourgeois Society

10.1 The Trinity Formula

With the predominance of the capitalist mode of production, the old estates and feudal relationships, together with their political and religious trappings, dissolve. Estates, privileges, and inherited seigniorages fade away behind the equality of commodity owners, with uneven property as the only inequality. The systematic development of science and technology required and promoted by capitalism undermines customary prejudices and religious explanations of the world. Upon this foundation emerged the self-conception of bourgeois-capitalist society as a bastion of enlightenment, civilization, and culture, in which Occidental civilization had reached its supposed climax. From this perspective, all other social formations appear as underdeveloped precursors of bourgeois society, or as “primitive,” demonstrated among other things by their “fetishism,” in which magical powers are attributed to a piece of wood or cloth. This feeling of superiority supplied the colonialism of the nineteenth and twentieth centuries with its ideological embellishment; it was supposedly merely the case that culture and civilization were being brought to the colonized populations.
The rationalist self-conception of the bourgeois-capitalist epoch was also echoed by sociological reflection. Thus did Max Weber (1864–1920), one of the most important founding fathers of modern sociology, establish the “disenchantment of the world” and a “rationalization” penetrating all spheres and relations of life as decisive characteristics of capitalist societies.

Marx and Engels also had such “disenchantment” in mind as they characterized the consequences of the rise of the bourgeoisie in the *Communist Manifesto* of 1848:

The bourgeoisie, wherever it has got the upper hand, has put an end to all feudal, patriarchal, idyllic relations. . . . In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation. . . . All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses, his real conditions of life, and his relations with his kind. (MECW, 6:486-87)

In the *Communist Manifesto*, Marx and Engels still hold the opinion that with the establishment of capitalism, social relations would become increasingly transparent: domination and exploitation are no longer mystified and disguised, but openly visible. Connected with this view was the hope that the oppressed and exploited, now that they were forced to perceive their situation with “sober senses,” would increasingly strike back against exploitative relations.

The notion that the exploitation of the working class in capitalism was readily transparent and that only the manipulation of the rulers—with the help of the press, church, schools, etc.—disguised it was widespread in traditional Marxism. The critique of ideology was understood as an act of exposure: one merely had to uncover the “real interests” behind a notion.53

However, Marx did not remain at the level of analysis of the *Communist Manifesto*. In *Capital*, it is in no way the case that social relations in capitalism are regarded as transparent. Quite the contrary, central passages
of the work deal with the "mystification" of these social relations. That which Marx describes in Capital as fetishism and mystification are inversions that do not arise from the manipulation of the ruling class, but rather from the structure of bourgeois society and the activity that constantly reproduces this structure. The fact that Marx speaks of fetishism is a pointed barb against the enlightened-rationalist self-confidence of bourgeois society, as well as against the empirical self-conception of political economy, which rests upon this fetishism (see section 3.8).

The various fetish forms and mystifications that were dealt with in the previous chapters do not exist unconnected alongside one another. They constitute a whole that Marx outlines in summary at the end of the third volume of Capital under the title "The Trinity Formula" (chapter 48).

The capitalist process of production is a specific historical form of the social process of production. Its foundation is the separation of direct producers from the means of production, which is why workers—although formally free—are forced by material circumstance to sell their labor-power to the capitalist, who owns the means of production. The capitalist pays the value of labor-power (its cost of reproduction) in the form of wages, but allows labor-power to work longer than is necessary for the reproduction of its value: the capitalist extracts surplus labor from his employees and this surplus labor is realized as surplus value when the product is sold. But the surplus value does not remain entirely with the capitalist: first he must pay ground rent to the landowner (or buy land, thus becoming a landowner himself). Capitalists must pay ground rent, since land is limited and is the private property of landowners. The capitalist can only make the annuity payments out of his surplus value, even if he regards the annuity as a normal cost factor. The class of capitalists, who are the first to appropriate surplus value, must share it with the class of landowners.54

However, products are not sold at their value, so the individual capitalist does not appropriate exactly the amount of surplus value created by the labor-power he employs. Barring coincidental fluctuations, the individual capitalist obtains the average profit, that is to say, a profit proportional to the quantity of the capital advanced by him. This average profit is then divided into interest and profit of enterprise.55
The annual total product of the economy is thus divided materially, and in terms of value, between a portion that replaces used means of production, a portion that the workers receive as wages and is necessary for their reproduction, and a surplus product beyond that is necessary for the reproduction of means of production and labor-power. This last portion is divided into ground rent, interest, and profit of enterprise.

Capital, land, and labor-power, as fundamentally different as they are, have the common property of being \textit{sources of income} or \textit{revenue} for their owners: capital yields a profit or interest, land yields ground rent, and labor-power yields a wage (or as the case may be, labor yields a wage: that is how it appears to both workers and capitalists) (see section 4.5). These incomes can be completely consumed without their respective sources running dry.

Capital is a source of income because it allows the capitalist to extract surplus labor from the labor-power he employs; land is a source of income because it makes it possible for landowners to attract a portion of the surplus value extracted by the capitalist; and labor is a source of income because the workers obtain a portion of the value they create by means of labor. Capital, land, and labor are thus only \textit{sources of income} because they are means of \textit{appropriation}: under capitalist social relations, by means of capital, land, and labor, one can \textit{appropriate a portion of the annual product in the form of income}.

The matter seems to be inverted to the agents of production (capitalists, landowners, and forces of labor) as well as in most economic theories. To them, capital, ground rent, and labor seem to be three distinct and independent \textit{sources of the value produced annually}, and it is only because they are \textit{sources of value}—such is the conclusion reached by both common sense as well as professional economists—that they can act at all as \textit{means of appropriating} this value. For the agents of production, it seems as if the owners of capital, land, and labor usually receive as income precisely that portion of value that their “factor of production” contributes to the product.

How does this semblance come about? The section on the fetish character of commodities (3.8) clarified that the characteristic of commodities of possessing value appears as a “social-natural property”
Although that value is not a natural property like weight or color, it appears as if products automatically possess value in every social context, and not just in a particular one. Regarding only the purely material side of production, the individual product is the result of a production process in which labor is expended (produced), means of production are applied, and land (in agriculture or in the extraction of raw materials) is used. The process of value creation is thus understood as an analogue to this material process: as the contribution of value by the factors of production.

The foundation of this inversion consists in the fact that there seems to be no essential difference between labor and wage-labor. The separation between labor and the material conditions of production is accepted as natural. However, if there is no essential difference between labor and wage-labor, then there is also no such difference between the means of production and capital, nor between land and landed property. Marx summarizes this in the following way:

If labour and wage-labour thus coincide, so too do the particular social form in which the conditions of labour confront labour and their own material existence. The means of labour are then capital as such, while the earth as such is landed property. The formal autonomy these conditions of labour acquire vis-à-vis labour, the particular form of this autonomy they possess, is then a property inseparable from them as things, as material conditions of production, an immanently ingrown character that necessarily falls to them as elements of production. Their social character in the capitalist production process, determined by a particular historical epoch, is an innate material character natural to them, and eternally so, as it were, as elements of the production process. (Capital, 3:964)

The social form-determinations wage-labor, capital, and landed property seemingly coincide with the material conditions of production of labor, means of production, and land, so that every labor process is actually already a capitalist production process. Marx therefore speaks of the “reification of the relations of production” (Capital, 3:969): with
regard to the relations of production, it is no longer apparent that these are specific historical relations between people. Rather, these seem to have an objective foundation in the fact that production occurs at all.

Wages, profits, and rent thus seem to be nothing other than the portions of the product’s value that can be traced back to the functioning of wage-labor, capital, and landed property. At the same time, the transformation of the value of labor-power into the “value of labor” (see section 4.5) is fundamental: precisely because the wage appears to compensate the “value of labor,” the remaining components of newly added value, profit and rent, must emanate from the remaining two “factors of production,” capital and landed property. Since commodities are not exchanged at their values but rather at prices of production, this semblance cannot be resolved with regard to a single commodity. There does not appear to be any sort of connection between the expended labor on the one hand, and the average profit and rent on the other: profit depends (under normal conditions) upon the size of the capital employed, regardless whether many or few laborers are employed, and rent depends upon which land and how much of it is used.

Capital—profit/interest, landed property—rent, labor—wage: this “trinity” as an expression of a seeming connection between value and its sources is referred to by Marx as the trinity formula. It completes, according to Marx,

the mystification of the capitalist mode of production, the reification of social relations, and the immediate coalescence of the material relations of production with their historical and social specificity: the bewitched, distorted and upside-down world haunted by Monsieur le Capital and Madame la Terre, who are at the same time social characters and mere things. (*Capital*, 3:969)

*Capital* and “land” in capitalist society obtain magical abilities similar to those of wood or cloth fetishes in allegedly primitive societies. People in bourgeois society therefore live in an “enchanted” world, in which a “personification of things” occurs: the subjects of the social process are not people, but commodity, money, and capital. This is not merely a case
of “false consciousness.” It is the social practice of capitalist society that constantly enacts a process whereby the “factors of production” take on a life of their own and social cohesion is constituted as an objective necessity that individuals can only escape on pain of ruin. To that extent, personified things absolutely possess a material force.

All members of bourgeois society are subordinate to the fetishism of social relations. This fetishism takes root as an “objective form of thought” that structures the perception of all members of society (see section 3.8). Neither capitalists nor workers have a privileged position that allows them to evade this fetishism.

However, this fetishism is also not a completely closed universal context of deception from which there is no escape. Rather, it constitutes a structural background that is always present, but affects different individuals with varying strength and can be penetrated on the basis of experience and reflection.

10.2 Excursus on Anti-Semitism

In the Preface to the first edition of Capital, Marx writes that he doesn’t “by any means depict the capitalist and the landowner in rosy colours,” but that his depiction deals with individuals “only in so far as they are the personifications of economic categories,” and therefore the point cannot be to “make the individual responsible for relations whose creature he socially remains, however much he may subjectively raise himself above them” (Capital, 1:92). As shown above (see section 4.2 or 5.2), economic actors follow a rationality that is imposed upon them by the economic relations. Thus the constant attempts by capitalists to raise the level of valorization (in the normal case) does not result from an “excessive addiction to profit” on the part of the individual capitalist; it is competition that forces such behavior upon individual capitalists on pain of economic ruin. Everybody, including those who profit from the operation of capitalism, is part of a gigantic wheelwork. Capitalism turns out to be an anonymous machine, without any foreman who steers the machine or can be made responsible for the destruction wrought by the machine. If one wishes to put an end to
such destruction, it is not sufficient to criticize capitalists. Rather, capitalist structures in their entirety must be abolished.

With the “personification of things and the reification of the relations of production” (*Capital*, 3:969), capitalism as a whole seems to be largely immune to criticism. Since the capitalist machine appears to be nothing other than the most advanced manifestation of the process of social life (that social form-determinations can no longer be distinguished from their material content is precisely what is expressed by the *trinity formula*), society cannot extricate itself from this machine. The subjugation to allegedly unavoidable “objective necessities” is, so it would seem, impossible to escape; one must simply come to terms with the situation.

In light of the impositions of capitalism—its crisis-prone development, often catastrophic in its effects upon individual lives, its constant calling into question all living conditions and circumstances—there occur time and time again forms of a blinkered negation of fetishism: “guilty” parties are sought behind the anonymous capitalist machinery that can be made responsible for the misery. Attempts are made to influence their actions; in extreme cases, they are supposed to atone for the misdeeds attributed to them. Thus, in the various capitalist societies, a *personalization of fetishistic relations* can be observed time and time again. Among such forms of personalization is *anti-Semitism*; however, it cannot be reduced to such a personalization.57

In *Capital*, Marx does not deal with such acts of personalization, or with anti-Semitism. In this section, we intend to deal with these phenomena against the background of Marx’s analysis of fetishism, although in doing so we run up against the limits of the depiction of the capitalist mode of production at its “ideal average”: personalization and anti-Semitism cannot be “derived” from the categories of the critique of political economy. The personalization of capitalist relations can take on completely different forms depending upon the historical context and the particular social structure, and multiple forms can exist simultaneously alongside one another.

It is seldom the case that capitalists as a whole are made responsible for particular miseries. It is too conspicuous that capitalists are also often the ones being driven, having to obey the “demands of the market” if
they don’t want to go under. This appears to be the case for small and medium capitalists, whereas large corporations and “monopolies” are alleged to have the power of eluding such demands, or being able to create them in the first place. As a result, a distinction is made between the good capitalism of the small capitalists and the bad, unscrupulous, exploitative capitalism of the big capitalists. The latter are then regarded as pulling the strings in the background.

Another variant of personalization is the reference to “the banks” (or possibly “the speculators”), which by means of credit and stock ownership control a large number of enterprises and are therefore the secret masterminds of the economy. Here, a good, industrial-productive capital is contrasted to an evil, money-hungry financial capital.

These acts of personalization are based upon quite real differences: the competitive situation and the room for maneuvering of a small business is usually much different than that of a large business; between banks and industrial enterprises there are often considerable differences of interest concerning many questions. There are also plenty of examples of the bosses of large businesses and banks attempting to exploit their positions of power. Yet even big businesses and large banks cannot permanently extricate themselves from the coercive laws of an economic system mediated by value. Often, big businesses, banks, and speculators are accused of being motivated solely by the quest for profit, but that’s always the case in capitalism for every capitalist, large or small.

A special form of personalization occurs in anti-Semitism. Here, Jews are accused of an economic orientation toward money and profiteering that is allegedly rooted in their “nature” or—since the rise of “race theories” in the nineteenth century—in their “race,” as well as an unconditional striving for power that includes plans for world domination, plans that are alleged to have been already successful to a certain extent.

Hatred and persecution of Jews already existed in pre-bourgeois societies, primarily in the European Middle Ages. However, there are significant differences between medieval hatred of Jews and the anti-Semitism of the nineteenth and twentieth centuries. Since the Crusades (the first occurred in 1096), hatred of Jews had a strong religious component. Jews had already been described as “murderers of God” due to the cru-
cifixion of Jesus, but with the Crusades this accusation acquired a new quality: the opinion became widespread that one should slay these “murderers of God” as well as the “Mahometans” occupying the “Holy Land.” In the same period, the ban on Christians earning interest was tightened (Third Council of the Lateran, 1179), while Jews were simultaneously denied entry to a variety of professions (Fourth Council of the Lateran, 1215). If Jews did not wish to be baptized as Christians, nearly the only available sources of income were trade and moneylending.

In pre-bourgeois societies, exchange and money also existed, but only played a subordinate role. Exploitation and domination were directly mediated by personal relations of force and dependence (the dependence of slaves upon their owners, the dependence of serfs or peasants compelled to perform corvée upon landlords, etc.). The spread of exchange and money undermined pre-bourgeois relations and increased the misery of the lower classes; often, impoverishment had begun through an act of borrowing from a small moneylender.

Nobles and princes made use of the services of large Jewish bankers. The latter received in return a privileged place at the noble court, but were also often the objects of general envy and made responsible for political and financial difficulties.

Jews were not the only people in the Middle Ages and early modern period who were occupied with trade and moneylending, but throughout the course of centuries, they were conspicuously visible as an “alien” group as a result of forced clothing regulations, living in ghettos, and non-participation in Christian festivals. It was therefore easy to identify them with the destructive power of money and interest, regardless of whether one was affected by this destructive power or if one had any contact with Jews at all. The Jews became the objects of a widespread hatred that was further incited by wild rumors such as the alleged ritual murder of Christian children. Since the High Middle Ages, this hate was discharged increasingly in the form of pogroms and expulsions, often with the approval of the Church, princes, or the urban upper class. In the end, members of both the higher and lower orders of society helped themselves to Jewish property.

The religious aspect no longer plays an important role for modern anti-Semitism. In an increasingly secularized world, the “wrong” religion
can no longer be a decisive criterion. However, economic behavior attributed to Jews—being interested solely in money and profit, not having to work as a result of the power of money and instead living from the labor of others—obtains a brand-new importance. Money, the valorization of capital, profit maximization, and interest do not just play a role on the margins of society but are constitutive for the capitalist mode of production. Anti-Semitism in bourgeois-capitalist society is thus fundamentally distinct from all other forms of discrimination, prejudice, and attribution. In bourgeois as well as pre-bourgeois societies other groups were and are subject to discrimination and the attribution of particular modes of behavior or abilities (a particular shiftiness, aggressive sexual potency, etc.). Only in modern anti-Semitism are central constitutive principles of society projected “outward” onto a “foreign” group. The projection is also not limited to the economic sphere; rather, cultural characteristics of modern bourgeois society (intellectualism, mobility, etc.) are attributed overwhelmingly to “the Jews” and simultaneously devalued as decadent.

Finally, the “foreignness” that characterizes Jews in anti-Semitic thought is considered to be fundamental, standing in opposition to every community. A Turk in Germany is also considered foreign, but only because he (allegedly) belongs to another community. In anti-Semitic thought, Jews are not simply perceived to be members of another community, but as corroders and destroyers of every community. If we limit ourselves to the economy, then one can demonstrate anti-Semitic stereotypes in terms of value-theory on different levels. The conception of the “Jewish huckster” chasing after even the smallest advantage in trade and plunging debtors into catastrophe in his role as “usurer” remains fundamentally (even though interest is involved) at the level of the simple circulation of commodities and money. The force of value taking on a life of its own as money, which confronts concrete labor and use value, is projected onto “the Jews” as a force emanating from them. It is the misunderstood fetish character of money that is personalized here.

With the contrast made out in particular by the Nazis between “productive” or “schaffendem” (non-Jewish) capital and “parasitic” or “raffen-dem” (Jewish) capital, whereby the latter holds the former in a stranglehold through the banks and financial markets, the contradiction between
an independent manifestation of value in the form of money and concrete labor is shifted onto the level of the total process of capitalist reproduction. It is the capital fetish, in its most developed form as interest-bearing capital, which is personalized. In section 8.1 it was shown how interest as the seemingly original fruit of capital makes enterprise profit into the fruit of entrepreneurial labor and therefore reduces the functioning capitalist to a particular category of laborer. The personalization addressed above builds upon this semblance. The separation of interest and enterprise profit is not called into question, but the mysterious power of capital to bring about interest is. It is “the Jews” who hold the real laborers, whether capitalists or workers, in “interest bondage” and who as non-workers are nothing other than “parasites.”

In that “the Jews” are detected to be the real capitalists in anti-Semitic thought, they can be made responsible for all the ills and cataclysms that capitalism generates. At the same time, they appear to be all-powerful: through the banks and financial markets they dominate big business, with their money they can buy the press (which is allegedly proved by every newspaper article directed against anti-Semitism), and ultimately they influence political parties and governments. At the same time, “the Jews” are considered to be cosmopolitan and rootless, but with global connections to their own people. These two stereotypes, the all-powerfulness of Jews and their rootlessness, leads to a third stereotype in anti-Semitic thought: the “global Jewish conspiracy” (to which “Jewish communism” is often also attributed). The Jews are accused of seeking world domination and of already having come close to accomplishing this goal. All threats emanating from anonymous, incomprehensible powers now obtain a face: the threat of “global Jewry.”

However, with this general determination of anti-Semitism nothing is yet said about whether and to what extent anti-Semitism is actually widespread. The fact that the personalization of capitalist relations provides a release for the individuals suffering under those relations does not necessarily mean that those individuals always aim for that release. Nor when they do so does it mean that the acts of personalization always have an anti-Semitic character. It must be emphasized that at the general level of argumentation in Marx’s Capital, at which the thoughts outlined above
occur, no statement is possible concerning the specific societal effects of anti-Semitism, or the extent of the harm it inflicts.\textsuperscript{61}

10.3 Classes, Class Struggle, and Historical Determinism

Many currents of traditional Marxism understood Marx’s analysis of capital primarily as a class analysis, an examination of the struggle between bourgeoisie and proletariat. Most present-day conservatives and liberals consider the concepts of “class” and in particular “class struggle” to be “ideological,” which is supposed to mean something like “unscientific.” As a rule, it is primarily leftists who use these terms. However, talk of class is not specific to Marx. Even before Marx, bourgeois historians spoke of classes and class struggle, and David Ricardo, the most important representative of classical political economy, pointed out the fundamentally opposed interests of the three large classes of capitalist societies (capitalists, landlords, and workers).

Classes and class struggle constitute the central point of reference for Marx’s argumentation primarily in the \textit{Communist Manifesto} (1848). At the very beginning of that work, one finds the famous sentence: “The history of all hitherto existing society is the history of class struggles” (MECW, 6:482). That which Marx saw as his own contribution to class theory, he summarized in a letter to his friend Weydemeyer. Marx emphasizes that he in no way discovered the existence of classes or class struggle, but that his contribution was “1. to show that the \textit{existence of classes} is merely bound up with \textit{certain historical phases in the development of production}; 2. that the class struggle necessarily leads to the \textit{dictatorship of the proletariat}; 3. that this dictatorship itself constitutes no more than a transition to the \textit{abolition of all classes} and to a \textit{classless society}” (MECW, 39:62–65). The word “dictatorship” as used here does not mean an authoritarian form of rule, but rather simply class rule, independent of political form. Points 2 and 3 sound very deterministic; history appears—driven by the class struggle—to move toward a particular goal. One also finds this conception in the \textit{Communist Manifesto}. 
In *Capital*, Marx writes repeatedly of classes, but there is no attempt at a systematic treatment or even a definition. Only at the end of the third volume does Marx begin a section on classes, and it is precisely here that the manuscript breaks off after a few sentences. From this arrangement, one can see that a systematic treatment of classes is not the precondition of Marx's depiction, but rather should come at the end as its result.

In the following, we will not engage in speculation as to what Marx possibly intended to take on in the unwritten section on classes. Rather, we shall attempt to summarize what can be said about classes and class struggle on the basis of what was said in previous chapters. The following section thus depends strongly upon the conception of the critique of political economy outlined in this book.

Without claiming to have a fully developed class theory, one can speak of social classes in two distinct senses. In a structural sense, classes are determined by their position in the social process of production. To that extent, somebody can belong to a particular social class without necessarily being aware of it. Distinct from this are classes in a historical sense. These are social groups that in a particular historical situation understand themselves to be classes as distinct from other classes; the members of the class distinguish themselves by means of a common "class consciousness."

In *Capital*, Marx uses the concept of class predominantly in the structural sense, such as when he establishes that a particular class relation is at the foundation of the capital relation: the owners of money and means of production on the one hand, and the workers "free" in a double sense on the other hand (see section 4.3). Groups that are neither bourgeois nor proletarian—primarily the self-employed as well as artisans, small merchants, or small farmers—are referred to by Marx as middle-class or petit-bourgeois.

Classes in a structural sense cannot be identified with their respective historical manifestations. A capitalist does not necessarily have a cigar and chauffeur, nor can proletarians be reduced to industrial workers inhabiting working-class housing estates. The dissolution of such stereotypes is not evidence for the end of classes, but merely for a change in their historical manifestation.
The question of who belongs to what class in a structural sense also cannot be determined according to formal properties, such as the existence of a wage-relationship, but only by the position occupied within the process of production. More precisely: it can only be determined at the level of the “process of capitalist production as a whole” that Marx arrives at in the third volume, where the unity of the processes of production and circulation is already assumed (see beginning of chapter 7). At this level, it is clear that the ownership or non-ownership of means of production is not the only decisive criterion concerning class affiliation. The chairman of the board of a corporation might formally be a wage-laborer, but in fact he is a “functioning capitalist”: he disposes of capital (even if it is not his personal property), organizes exploitation, and his “payment” is not based upon the value of his labor-power, but on the profit produced. In contrast, many formally self-employed people (who might even own some small means of production) are still proletarians, who live de facto from the sale of their labor-power, except that this occurs under potentially worse conditions than under a formal wage relationship.

The life circumstances (income, education, and even life expectancy) of the structurally determined classes “bourgeoisie” and “proletariat” are considerably different today, but even within the “proletariat” there is a wide range of completely different living conditions (concerning work, income, and education as well as leisure time and consumption patterns). Thus it is anything but certain that a common class position necessarily generates a common consciousness and practice, with the structurally determined class transforming into a historical-social class: it can happen, but then again it might not.

Even if the (structurally determined) proletariat or a section thereof transforms into a historical class and develops a class consciousness, this does not automatically mean that this class consciousness contains a conception of an emancipatory transcendence of the capital relation. Even a class-conscious proletariat is not automatically “revolutionary.”

In the capitalist production process, bourgeoisie and proletariat directly confront one another; the exploitation of the proletariat first makes possible the existence of capital as self-valorizing value. The concrete
conditions under which the valorization of capital is consummated are always contested: the value of labor-power must be sufficient for normal reproduction. Exactly what counts as “normal” depends upon what demands the working class can enforce (see section 4.4). Just as contested is the length of the workday (section 5.1) and the respective conditions under which the production process occurs (section 5.4). To that extent, class struggle always exists alongside the capital relation, whether or not it is referred to as such. Class consciousness can emerge in particular from class struggles, but this consciousness may appear in completely different ways depending upon historical conditions.

Class struggles do not only take the form of a direct confrontation between bourgeoisie and proletariat; they can also relate to the state, which through its laws is supposed to codify or eliminate certain positions (limitation of the workday, protection against dismissal, social insurance, etc.). However, class conflict is not the only important social cleavage in capitalist society. Conflicts concerning gender roles, racial oppression, and the handling of immigration are also of considerable importance for social development.

Traditional Marxism often considered class conflicts to be the only truly important social struggles. Italian “Operaismo,” a radical leftist current that emerged in the 1960s, even regarded class struggle as the decisive factor for capitalist crises. That the successful imposition of working-class demands can intensify or trigger crises is indisputable. Even bourgeois economists, such as adherents of the contemporary neoclassical school, point this out when they cite allegedly excessively high wages, excessively strong trade unions, and (excessively worker-friendly) regulation of the labor market as the causes of crisis and unemployment. For the analysis of the development of capitalism in a particular country during a particular historical period, the extent and forms of class struggle are without doubt important factors. However, at the level of depiction of the capitalist mode of production at its “ideal average” (meaning at the level of depiction of Marx’s *Capital*; see section 2.1), the reduction of crises to class struggle falls short of the decisive point of Marx’s theory of crisis. It was precisely Marx’s intent to show that there are crisis tendencies immanent to capital that lead to crises completely independent of the state
of class struggle. That means that even if class struggle were to come to a complete standstill, crises would still occur.

Class struggles are initially struggles within capitalism: the proletariat fights about its conditions of existence as a proletariat for higher wages, better working conditions, the codification of legal rights, etc. To that extent, class struggles are not an indicator of a particular weakness of capital or even an impending revolution, but rather the normal movement pattern for conflicts between the bourgeoisie and proletariat. The reasons given for demands raised also tend to remain within the framework delimited by the trinity formula: if a “just” wage is demanded, then such a demand takes as its basis precisely the irrationality of the wage form (namely wage as the payment for the value of labor and not as payment for the value of labor-power; see section 4.5) that Marx diagnosed as the foundation of all conceptions of justice on the part of both wage laborers and capitalists. That means that when people in bourgeois society, be they workers or capitalists, attempt to become clear about their interests, they initially do so within the fetishistic forms of thought and perception that dominate spontaneous everyday consciousness.

However, class struggles also possess an independent dynamic. They can lead to processes of learning and radicalization in which the capitalist system as a whole is called into question, precisely because fetishism is not impenetrable. Primarily in the early stage of the implementation of modern industrial capitalism, struggles led by the proletariat were often met with brutal state repression (for example, bans on trade unions and strikes, the persecution of activists) that further intensified processes of radicalization. Compared to the nineteenth and early twentieth century, this direct repression has abated in many countries, though it still plays an important role in some. In the leading capitalist countries today, there is a more or less strong legal regulation of the forms in which the direct confrontation between bourgeoisie and proletariat occurs: the class struggle is allowed to take place, but without endangering the system (for example, in Germany the right to strike and the right of association are legally guaranteed, but so is the right of businesses to engage in lockouts; sovereignty in collective bargaining is also guaranteed, but political strikes are forbidden). That is, particular
forms of struggle are free of direct state repression, while others are persecuted all the more strongly.

In the history of Marxism, two false conclusions were often made concerning class and class struggle. First, it was inferred that class consciousness arises sooner or later as a direct result of the situation of the working class. Second, it was assumed that this class consciousness must have a more or less “revolutionary” content. For that reason, it was not unusual for every incidence of class struggle to be interpreted as the harbinger of an impending revolutionary final conflict. It was assumed that in the course of capitalism’s development, the proletariat would develop into a conscious, revolutionary class. There were a few situations in history in which segments of the working class acted in a revolutionary manner, but such situations were not the result of a general tendency of the proletariat developing into a revolutionary class, but rather expressions of concrete historical conditions (for example, the lost war and the loss of legitimacy of the previously dominant aristocratic-military circles in Germany in 1918). The revolutionary orientation of parts of the proletariat thus always remained a temporary phenomenon.

Many Marxist “class analyses” concerned with the question of “who belongs to the proletariat” proceeded from the assumption of a necessary transformation of the proletariat into a revolutionary class. It was believed that one could discover the “revolutionary subject” by means of an analytical determination of the proletariat. Insofar as the real proletarians were not clear about their role, they should be helped along—mainly by the “party of the working class,” and usually multiple candidates engaged in bitter combat for the sake of claiming that title.

One can also find these two false conclusions, and a deterministic conception of history building upon them, in some of Marx’s works, above all in the Communist Manifesto—precisely the text that consistently played an important role in traditional Marxism and in the various workers’ parties.

In Capital, Marx is considerably more cautious. However, in that work there are still echoes of the earlier historical determinism. At the end of the first volume, Marx tersely sketches out on three pages the “Historical Tendency of Capitalist Accumulation” (the title of the section). First,
Marx summarizes the emergence of the capitalist mode of production as the expropriation of individual small producers (small peasants and artisans). In the course of the “primitive accumulation,” they lose ownership of the means of production, so that they are compelled to sell their labor-power to the capitalists. On the basis of the capitalist mode of production, a fundamental transformation of the production process is set in motion: small industry becomes large industry, concentration and centralization of capital occurs, science and technology are systematically applied, the means of production are economized, and national economies are integrated into the world market. Marx then continues:

Along with the constant decrease in the number of capitalist magnates, who usurp and monopolize all the advantages of this process of transformation, the mass of misery, oppression, slavery, degradation and exploitation grows; but with this there also grows the revolt of the working class, a class constantly increasing in numbers, and trained, united and organized by the very mechanism of the capitalist process of production. The monopoly of capital becomes a fetter upon the mode of production, which has flourished alongside and under it. The centralization of the means of production and the socialization of labour reach a point at which they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated. (*Capital*, 1:929)

In this outline, the development of the proletariat into a revolutionary class and the overthrow of the rule of capital appear to be an inevitable process. And in a footnote, Marx quotes the *Communist Manifesto*, where the following is said about the bourgeoisie: “Its fall and the victory of the proletariat are equally inevitable” (*Capital*, 1:930).

In the early workers’ movement, such messages were eagerly accepted, given that one experienced regularly the exclusion and humiliation brought about by the very bourgeois society whose end was predicted. In the Social Democratic press before the First World War, and later in the Communist press, this three-page excerpt from the first volume of
Capital was frequently printed and cited, considerably influencing the perception of the content of Marx’s analysis.

However, these predictions are not backed up by Marx’s own research. The extent to which the “monopoly of capital becomes a fetter upon the mode of production, which has flourished alongside and under it” is not at all obvious. That the fruits and social costs of capitalist development are so extremely unequally distributed is not an impediment to capitalist development, but rather—as Marx’s own analysis makes clear—its intrinsic pattern of movement. And the fact that the proletariat experiences a numeric increase as a result of the imposition of the capitalist mode of production and in a certain sense is “unified” and “schooled” by large industry (to the extent that the proletariat has to organize politically and in trade unions to continue existing as a proletariat) is true, but the idea that this inevitably leads to the constitution of a revolutionary class is in no way a consequence of Marx’s analysis. On the contrary, Capital offers the details for understanding why revolutionary developments are so rare and why the “revolt” in the passage quoted above does not lead immediately to a struggle against capitalism: with the analysis of fetishism, the irrationality of the wage-form, and the trinity formula, Marx showed how the capitalist mode of production generates an image of itself in which social relationships are reified, and where capitalist relations of production apparently arise from the conditions of all production so that only changes within capitalist relations are possible. A revolutionary development can arise; it is not impossible, but it is anything but inevitable.

In the passage excerpted above, Marx drew conclusions amounting to a sort of historical determinism that are not justified by his categorical depiction. To that extent, the passage is more an expression of hope than analysis; revolutionary enthusiasm triumphed over the cool scholar. However, the depiction of the capitalist mode of production itself is not dependent upon these questionable conclusions. Capital still offers the best contribution to understanding the capitalist mode of production. But how and whether this mode of production will reach its end cannot be determined in advance. There are no certainties here, merely a struggle with a conclusion that is up for grabs.
11. State and Capital

When Marx took up a comprehensive critique of political economy at the end of the 1850s, he also intended to write a book on the state. Marx planned a total of six books: on capital, landed property, wage-labor, the state, foreign trade, and the world market. In terms of range of content, the three volumes of *Capital* approximately comprise the first three books. The planned book on the state was never written; in *Capital* there are only isolated references to the state. A few general elements of a theory of the state can be found in the later works of Engels, the *Anti-Dühring* (1878) and above all *The Origins of the Family, Private Property, and the State* (1884). In the twentieth century, there was a broad debate among Marxists concerning state theory, but it did not lead to a common understanding of the state. In this chapter, we will not attempt to offer a compact “Marxist theory of the state.” Rather, we will attempt to emphasize, on the basis of a few fundamental topics, that against the background of the critique of political economy an alternative to bourgeois theories of the state is not the only point—the point is a critique of politics. By that we mean not a critique of certain policies, but rather a critique of the state and politics as social forms, that is, as particular modes of mediating social cohesion.
11.1 The State—An Instrument of the Ruling Class?

Above all, two points addressed by Marx and Engels considerably shaped subsequent theoretical discussions concerning the state: first, the phrases “base” and “superstructure,” and second, the conception of the state as an instrument of the ruling class. In the 1859 Preface to *A Contribution to the Critique of Political Economy*, Marx summarizes his general view of society on about one and a half pages. Marx identifies the economic structure of society as “the real foundation, on which rises a legal and political superstructure” and emphasizes that “neither legal relations nor political forms could be comprehended whether by themselves or on the basis of a so-called general development of the human mind, but that on the contrary they originate in the material conditions of life” (MECW,29:263,262).

Thus were the phrases “base” and “superstructure”—frequently used by Marxists though rarely by Marx—introduced into the debate. In traditional Marxism and Marxism-Leninism, the terse statements of this Preface are regarded as one of the foundational documents of “historical materialism.” The conclusion was often drawn that the economic “base” essentially determines the political “superstructure” (state, law, ideology) and every phenomenon of the “superstructure” must have a corresponding cause in the “base.” This simple reduction of things to economic causes is called *economism*.

Many discussions among Marxists revolved around the question as to what extent the “base” actually determines the “superstructure.” In the attempts to extrapolate definitive scholarly results from this Preface, it was often overlooked that Marx was initially only concerned with distancing himself from the discussions of the state predominant in his time, which regarded the state as independent from all economic relations. In contrast, Marx emphasizes that the state and law cannot be grasped by themselves, but must always be examined against the background of economic relations. With this contour it is not even foreshadowed how the analysis of the state should actually look.

The economistic interpretation of the terms “base” and “superstructure” was well suited to a characterization of the state originating primar-
ily with Engels. At the end of the *Origin of the Family* (1884), Engels makes a few general observations concerning the state. He emphasizes that the state did not exist in all human societies. Not until the emergence of social classes with antagonistic interests, when these antagonistic interests threaten to tear society apart, is “a power seemingly standing above society” necessary. This power that emerges from society but which increasingly takes on a life of its own is the state (MECW, 26:269). However, the state apparently stands only above classes; in fact, it is “the state of the most powerful, economically dominant class, which through the medium of the state, becomes also the politically dominant class” (MECW, 26:271). Engels initially understands the state as a power opposed to society. This overlaps with the general, colloquial understanding of the state as an institution possessing a monopoly on the legitimate use of force in a particular society: except in cases of self-defense, nobody may employ violence outside of appointed state organs such as the police or the military. Engels also emphasizes that this institution is at the same time an instrument of the ruling class—even in a democratic republic with universal suffrage, which according to Engels rests upon various indirect mechanisms of rule: the “direct corruption of officials” but also on the “alliance between government and stock exchange” (as a result of the national debt, the state is increasingly dependent upon the financial markets). Even universal suffrage does not stand in the way of an instrumentalization of the state, as long as the proletariat “is not yet ripe to emancipate itself” and regards the established social order as the only possible one (MECW, 26:271–72).

When the proletariat ultimately liberates itself and establishes a socialist/communist society, then, according to Engels, social classes will also disappear—not in one fell swoop, but gradually. Since the state only emerged as a force standing above society as a result of the class divide, the state will disappear along with social classes: the state “dies out” according to the famous formulation in the *Anti-Dühring* (MECW, 25:268).

The conception that the state is primarily an instrument in the hands of the economic ruling class was not only dominant in the various Marxist debates; radical-democratic bourgeois critics regarded at least the existing state as an instrument of direct class rule. According to the claims
made by modern states, the state is neutral with regard to social classes: imperative is the equality of citizens before the law and the obligation of the state to serve the common welfare. Whoever conceives of the state primarily as an instrument of class rule therefore usually attempts to prove that the actual activity of the government and the mode of functioning of state organs run counter to this claim of neutrality.

Such a conception has a certain empirical plausibility: one can always find examples of laws that primarily benefit the well-off or capitalist lobby groups exercising legal (or even illegal) influence on the legislative process and the political activity of the government. It is indisputable that particular fractions of capital attempt to use the state as an instrument, and sometimes succeed in doing so. The question is whether awareness of this state of affairs implies that one has already grasped the fundamental characteristics of the modern bourgeois state.

Usually state measures exist that benefit the poorer strata of the population. Exponents of an instrumentalist conception of the state interpret such measures as mere concessions, a means of pacifying the oppressed and exploited.

Critique of the state is understood by exponents of this conception primarily as exposure: the intent is to prove that the neutrality of the state is merely illusory. This critique of the state applies primarily to the particular application of the state, but not to the state and politics as social forms.63

In political practice, the instrumentalist conception of the state usually leads to the demand for an alternative use of the state: the claim of common welfare should finally be taken seriously and the interests of other classes more strongly taken into consideration. The question of how this can be achieved is subject to varying appraisals. “Revolutionary” tendencies emphasize that state policies in the “real” interest of the majority are only possible after a revolution. Therefore, exactly how revolutionary politics in non-revolutionary periods should look remains unclear. “Reformist” tendencies, on the other hand, believe that under capitalist relations a different politics, a compromise between classes, is possible. Correspondingly, “better” policies are expected from the participation of leftist parties in government. The frequently resulting disappointments are then justified by some reformists
as an unfortunately necessary cost of compromise, whereas the more radical reformists criticize the disappointing policies in question and attribute them to the accommodation or “betrayal” of the leaders of leftist parties. Not uncommonly, the next party is founded in order to “really” do things differently. The idea that there could be structural reasons for the criticized accommodation is disregarded.

11.2 Form-Determinations of the Bourgeois State:
Rule of Law, Welfare State, Democracy

A fundamental problem is tied up with the “instrumentalist” conception of the state: it obscures the qualitative differences between pre-bourgeois and bourgeois social relations and only emphasizes the division of society into different social classes. An analysis of the state must be concerned with the specific form by means of which these classes relate to one another and reproduce their class relation.64

Economic and political rule were not yet separate in pre-bourgeois societies: the relation of domination of slaveholders or feudal lords was that of a relation of personal rule over “their” slaves or serfs, which (from our contemporary perspective) simultaneously constituted a relationship of political power as well as a relationship of economic exploitation.

In bourgeois-capitalist society, economic exploitation and political rule diverge. The owner of land or means of production does not have a judiciary, police, or military function connected to the property granting him political power. Economic domination therefore no longer has a personal character; the individual wage-laborer is not personally bound to a particular capitalist. Members of bourgeois society encounter each other on the market as legally “equal” and “free” owners of private property, even if some only own labor-power and others own the means of production. Marx remarks sarcastically in Capital:

The sphere of circulation or commodity exchange, within whose boundaries the sale and purchase of labour-power goes on, is in fact a very Eden of the innate rights of man. It is the exclusive realm of Freedom, Equality,
Property and Bentham.\footnote{65} Freedom, because both buyer and seller of a commodity, let us say of labour-power, are determined only by their own free will. They contract as free persons, who are equal before the law. Their contract is the final result in which their joint will finds a common legal expression. Equality, because each enters into relation with the other, as with a simple owner of commodities, and they exchange equivalent for equivalent. Property, because each disposes only of what is his own. And Bentham, because each looks only to his own advantage. The only force bringing them together, and putting them into relation with each other, is the selfishness, the gain and the private interest of each. (Capital, 1:280)

The economic relationship of exploitation and domination is constituted by the agreement between free and equal contractual partners and can be dissolved at any time. The exploited consent to their own exploitation because in a society of private property they have no other possibility for securing their livelihood. The wage-laborer is not personally dependent upon a particular capitalist, but he must sell his labor-power to a capitalist in order to survive.

The relation of domination between the classes growing out of production in bourgeois society is completely different from all pre-bourgeois societies. For that reason, the political form of bourgeois society, the \textit{bourgeois state}, exhibits its own particular characteristics.

In pre-bourgeois societies, people confronted one another at the outset as legally unequal. Rights and obligations were defined by their respective state or social status; economic and political relations of domination were directly intertwined. Under capitalist social relations, direct political force is not necessary for the maintenance of economic exploitation: it is sufficient for the state as a force standing above society to guarantee that all members of society behave like owners of private property. However, the state must be a discrete, independent force, since it has to compel all members of society to recognize one another as private owners.

As the \textit{rule of law}, the bourgeois state treats its citizens as free and equal owners of private property. All citizens are subordinated to the
same laws and have the same rights and obligations. The state defends the private property of every citizen, regardless of that person's importance. This defense consists primarily in the fact that the citizens are obligated to recognize one another as private owners: the appropriation of property is only allowed by mutual agreement; as a rule, one only acquires property by endowment, inheritance, exchange, or purchase.

The state does in fact conduct itself as a neutral instance with regard to its citizens; this neutrality is in no way merely an illusion. Rather, it is precisely by means of this neutrality that the state secures the foundations of capitalist relations of domination and exploitation. The defense of property implies that those who possess no relevant property beyond their own labor-power must sell their labor-power. To be able to appropriate their means of subsistence, they must submit to capital. This makes the capitalist process of production possible and reproduces in turn the class relations that are its precondition. The individual laborer emerges from the process of production exactly as he entered it. The laborer's wage is essentially sufficient for his (or his family's) reproduction. In order to reproduce himself anew, he must sell his labor-power again. The capitalist also emerges from the production process again as a capitalist: his advanced capital returns to him together with a profit, so that he can even advance it again in a greater quantity. Thus the capitalist production process does not just produce commodities; it also reproduces the capital relation itself (see Capital, 1: chapter 23).

However, the fact that the reproduction of the capital relation to a large extent occurs—at least in the developed capitalist countries—without direct state coercion (the force of the state is always present indirectly as a threat) is a recent historical development. When the "primitive accumulation" and the "worker free in a double sense" (see section 4.3) still needed to be "produced," things were different. As Marx shows in detail using the example of England, the state had to continuously and directly intervene to encourage and enable capitalist production. Initially the state did this by supporting landlords expelling peasants from the land that the latter had cultivated for a long time (sheep raising was more profitable for the landlords), and then by forcing uprooted and vagabond people into the strict discipline of capitalist workplaces. This is not to say
that various governments followed a general plan to introduce capitalism, since such measures had completely different causes. However, modern capitalism was only able to establish itself as a result of these violent measures. It took a while for a working class to develop "which by education, tradition and habit looks upon the requirements of that mode of production as self-evident natural laws." Only then is the "silent compulsion of economic relations" sufficient for the "domination of the capitalist over the worker"—so that coercive state force is only necessary in exceptional cases (Capital, 1:899). Under developed capitalist relations, the maintenance of the class relation is assured precisely because the state, as the rule of law treats its citizens as free and equal owners of property regardless of their social class, defending their property and their dealings as property owners.

Moreover, the bourgeois state is not just the rule of law, merely establishing a formal framework and securing adherence to this framework by means of its monopoly on the use of force. It also guarantees the general material conditions for the accumulation of capital, insofar as these conditions cannot be established by individual capitals in a capitalist way, since doing so would not yield a sufficient profit. Among these conditions, which vary or are of varying importance in different historical periods, are the provision of a corresponding infrastructure (primarily transportation and communication), research and educational facilities, as well as a stable currency through the central bank. The state thus acts as an "ideal personification of the total national capital" (ideeller Gesamtkapitalist), as Engels called it (MECW, 25:266). Through its policies, the state follows the capitalist general interest of the most profitable accumulation possible. This general interest is not always identical with the particular interests of individual fractions of capital or an individual capitalist, which is why the state sometimes acts in opposition to these particular interests—for that very reason, there must be a self-contained instance independent of specific capitals. Of course, there are always examples of governments favoring individual capitals, but that is not an essential aspect of the state. For that very reason, such acts of favoritism are also denounced as a "scandal" in bourgeois circles that are in no way critical of the state and capital.
The essential precondition of capitalist accumulation is the existence of wage-laborers. Their reproduction is made possible by the wage paid by capital. For an individual capital, the wage (just like occupational health and safety measures) constitutes a cost factor that must be minimized in order to obtain the highest possible profit under the pressure of competition. If capital does not encounter resistance in the form of strong trade unions or similar associations, then excessively long working time, unhealthy and dangerous working conditions, and starvation wages will be imposed that prevent the reproduction of labor-power: a tendency toward the destruction of labor-power is thus intrinsic to capital’s drive (imposed by competition) for an increasingly greater valorization. The individual capitalist might recognize this and even regret it, but he can’t do much to change things if he wishes to avoid bankruptcy. So that capital does not destroy its object of exploitation, this object must be protected by compulsory state laws. A legal workday (see *Capital*, 1: chapter 10), regulations concerning occupational health and safety, as well as a legal minimum wage (or state welfare measures that function as a minimum wage level)—all of which were first imposed through workers’ struggles—limit capital’s possibilities for valorization, but secure them in the long term.

The state does not only prevent the destruction of labor-power; in the form of the welfare state, it also guarantees its reproduction insofar as this is not possible solely as a result of the wage compensation negotiated by workers and capitalists. Through various social insurance policies, the state secures labor-power against the fundamental risks it is exposed to in a capitalist economy: the permanent inability to sell labor-power as a result of an accident or old age (accident insurance and old-age pensions, respectively); and the temporary inability to sell labor-power as a result of illness or unemployment (health insurance and unemployment insurance, as well as welfare).

The means for state social welfare measures originate in the capital accumulation process, regardless of whether these measures are financed by social insurance contributions or taxes. A portion of the total social value is used, so that the mass of surplus value is reduced. For the individual capitalist, this deduction constitutes a restriction, just like the
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protective regulations mentioned above. To that extent, the state as welfare state violates the direct interest of each individual capital in maximum valorization and therefore encounters corresponding resistance. It is thus frequently the case that state social welfare measures come about as a result of struggles by the labor movement. The welfare state is therefore frequently understood as an “achievement” of the labor movement, a concession to the working class (in order to pacify it). It is in fact the case that the lives of wage-laborers are considerably easier and more secure with state social welfare measures than without them. However, it is not the case that such measures are one-sided benefits for the forces of labor that—as is occasionally asserted—already constitute the first step in transcending capitalism. Rather, they safeguard the existence of workers in a manner consistent with capitalism, namely as wage-laborers. On the one hand, it is in the interest of capital that those workers whose labor cannot be profitably used for a temporary period of time—as the result of illness, accident, or the lack of demand—are still maintained in an “orderly” condition amenable to capital. On the other hand, state social welfare measures are usually contingent upon the sale of labor-power (or the willingness to sell one’s labor-power): benefits such as unemployment insurance or old-age pensions depend upon the previous wage, a correlation that already functions as a means of disciplining workers. In the case of people physically and mentally able to work, the payment of unemployment insurance or welfare is also contingent upon their active effort to sell their labor-power. If this is not the case, the reduction or suspension of benefits is used as a means of disciplining by state agencies. The benefits of the welfare state, therefore, do not free one from the compulsion to sell one’s labor-power.

A decisive shortcoming of the conception of the bourgeois state as an instrument in the hands of the capitalist class is that it presupposes a “ruling” class that is both unified and capable of acting, as well as a clearly defined class interest that simply needs an instrument for its implementation. Neither assumption is self-evident. The “economic ruling class” in capitalism consists of capitalists with widely varying, even opposing interests. There is a common interest in the maintenance of the capitalist mode of production, but if the system is not threatened by a
revolutionary movement, then this interest is far too general to serve as a guideline for "normal" state action. The interests that determine the state's activity are not just sitting around waiting to be implemented, as is assumed by the instrumentalist conception. Rather, these interests must first be constituted.

All of the state's measures are contested, whether the issue is the concrete organization of the legal system, the securing of the material conditions of accumulation, or the type and extent of welfare state benefits. As a rule, every measure brings disadvantages for some capitalists (sometimes even for all capitalists) and advantages for others (or fewer disadvantages than for the rest). Advantages expected—but not certain—over the long term are pitted against immediate disadvantages. The issue of what the general capitalist interest consists in, which challenges the state should react to and how—all that has to constantly be ascertained. State policies presuppose a constant ascertainment of the general interest and the measures for its implementation.

Not uncommonly, there are different possibilities for implementing the capitalist general interest. Alternative strategies are possible, so that state policies cannot be reduced to the simple implementation of necessities of the capitalist economy. The reference to the economic purpose behind a state measure, popular in Marxist circles, is insufficient as an explanation. The relations of power between individual fractions of capital, cunning alliances, influence within the state apparatus and in the public media and similar factors are of decisive importance for the implementation or prevention of individual measures or even entire strategies. Sometimes results that are even harmful for the general capitalist interest are brought about. Lobbying, competing for influence, and so on is not a violation of the rules, but precisely the way in which the search for consensus occurs.

State policies do not only presuppose a consensus concerning the capitalist general interest within the most important fractions of capital. Such policies have to be legitimized in relation to the lower classes; a certain level of consent is also required from them. Only then is it guaranteed that the lower classes do not disturb the reproduction of capitalist relations through their social practice (and such disturbances do not
first emerge with politically motivated resistance). In particular, the lower classes must consent to the sacrifices demanded of them or at least passively accept them. For the establishment of legitimacy and the maintenance of the “disciplined” mode of behavior of the worker and citizen, it is not sufficient to simply “sell” such policies “well”; the interests of the lower classes—their interests within capitalism, meaning their interests in a better existence as wage-laborers—must at least be taken into consideration to the extent that they do not “excessively” interfere with the capitalist general interest in successful accumulation. The extent to which these interests are strongly and skillfully advocated thus plays a role in how much influence their advocates have in political parties, the state apparatuses, and the media.

The debate concerning the various political measures and different strategies, the constitution of consensus and legitimacy, the integration of interests in a manner consistent with capitalism—all of this involves not only the “ruling” class but also the “ruled” class. It occurs within as well as outside of state institutions: in the media of the bourgeois public sphere (television, the press) as well as in the institutions of democratic decision making (the parties, parliaments, committees). Of course, the policies of the state can also be imposed with dictatorial means against the majority of the population, but a long-term suppression of democratic institutions and the curtailment of freedom of the press and of opinion bring considerable material costs (the apparatus of repression must be all the more extensive if legitimacy is slight) and disturbs the ascertainment of the capitalist general interest. Military dictatorships and similar regimes are therefore rather the exception in developed capitalist countries.

Fundamental procedures for the establishment of legitimacy as well as a consensus conforming to capitalist norms are universal free elections occurring by secret ballot. This allows a majority of the population to vote out unpopular politicians and parties and elect new ones. The new government, regardless of whether its policies are different from that of the old one, can maintain against critics that it has been “elected” and therefore “wanted” by the majority of the population. This “legitimacy by procedure” comes to the fore in the way political science deals with democracy—neglecting the capitalist context to a large extent. The dis-
satisfaction of the population concerning the impositions of politics is not just offered a timely safety vent by the possibility of regular elections; it is also channeled, in that it is directed against individual politicians and parties and not the political and economic system behind their policies. Correspondingly, in the bourgeois public sphere, a political system counts as democratic when it offers the effective possibility for voting out a government.

The idealization of democracy one encounters in parts of the left, which measures really existing democratic institutions against the ideal of a citizen who should decide by vote about the greatest possible number of issues, also disregards the social and economic context of democracy, just like the mainstream of political science mentioned above. Alongside the different variants of democratic systems (with strong presidents, strong parliaments, etc.) there is no "real" democracy that must finally be introduced; under capitalist relations, the existing democratic system is already the "real" democracy (whoever sees "real" democracy in multiple, easily initiated plebiscites should take a look, for example, at Switzerland, and see if that leads to great changes).

The state and the public sphere constitute, as is often emphasized, an arena for different interests; in a democratic system, this can be seen rather clearly. However, this arena is not a neutral playing field. Rather, this playing field structurally affects debates and the political practice resulting from them. State policies are in no way completely determined by the economic situation, but they are also not an open process in which anything is possible. On the one hand, conflicts within and between classes as well as the relative strength and ability of individual groups to handle conflict, etc., play an important role, so that different developments are constantly possible. On the other hand, politics must always accommodate the general capitalist interest in successful accumulation. Parties and politicians might be quite different in terms of their backgrounds and value systems; in their policies, particularly when they are in government, they generally orient toward this general interest. This is not because they are "bribed" by capital or are otherwise somehow dependent (although that can also be the case), but rather because of the way parties assert themselves and the working conditions of gov-
Government—processes and conditions that even leftist parties who aim to govern cannot elude.

In order to be elected president or obtain a majority as a party, various interests and value systems have to be addressed. In order to be taken seriously in the media (an essential precondition for becoming well known), "realistic," "realizable" proposals must be made. Before a party can even come close to governing, it usually goes through a process of political education over the course of many years, in which it increasingly adjusts to "necessities," that is, to the pursuit of the capitalist general interest in order to have greater electoral success. If a party finally gets into government, it has to take care to obtain the necessary consent. It is now of particular importance that the political "room for maneuver" is decisively dependent upon financial possibilities: these are determined on the one hand by the level of tax revenue, and on the other by the level of expenditures, of which social welfare benefits are among the larger items. In the case of a successful accumulation of capital, tax revenues are high and welfare expenditures for the unemployed and the poor relatively low. In periods of crisis, tax revenues decline and social expenditures increase. The material foundation of the state is thus directly connected to the accumulation of capital; no government can get past this dependency. A government can increase its financial room for maneuvering by borrowing, but this increases the future financial burden. Additionally, a state can only obtain credit without problems as long as future tax receipts, from which the credit should be paid back, are certain, which in turn presupposes again a successful accumulation of capital.

The promotion of accumulation is not just the self-evident aim of politicians; it is also a truism among broad sectors of the population that "our" economy needs to perform well, so that "we" can benefit from it. "Sacrifices" that initially benefit only the capitalists are willingly borne in the expectation of better times to come. The former Social Democratic chancellor of Germany, Helmut Schmidt, formulated this memorably in the 1970s: "The profits of today are the investments of tomorrow and the jobs of the day after tomorrow." Criticism usually arises in the population not as a result of the impositions of policies and the promotion of policies, but due to the absence of the expected results.
Here again we see the relevance of the fetishism that structures the spontaneous perceptions of the actors in capitalist production. In the trinity formula, the capitalist mode of production appears to be a “natural form” of the social process of production (see chapter 10). Capitalism appears to be an endeavor without alternative, in which capital and labor play their “natural” roles. The experience of inequality, exploitation, and oppression therefore does not inevitably lead to a critique of capitalism but to a criticism of conditions within capitalism: “exaggerated” demands or an “unjust” distribution of wealth are criticized, but not the capitalist foundation of this distribution. Labor and capital appear to be the equally necessary and therefore equally respected bearers of the production of social wealth. Against the background of the trinity formula it is understandable why the conception of the state as a neutral third instance that concerns itself with “the whole”—and to which appeals for social justice are addressed—is so plausible and widespread.

This “whole” of capital and labor encompassed by the state is, then, to a varying extent in the individual countries, invoked as the nation, as an imaginary community of fate of a “people” that is constructed through an alleged “common” history and culture. This national unity is usually first achieved through the act of dissociation from “internal” and “external” enemies. The state appears as the political manifestation of the nation: the “well-being” of the nation must be realized by the state domestically as well as through the representation of the “national interest” abroad. This is exactly what the state does when it pursues the capitalist general interest, since this is the only common welfare possible under capitalist social relations.

11.3 World Market and Imperialism

In attempting to achieve the highest possible level of valorization, capital has a tendency to transcend national borders, both in the purchasing of the elements of constant capital (most notably raw materials) as well as in the sale of its finished products. Marx thus wrote of the world market that it is “the very basis and living atmosphere of the capitalist mode of
production” (Capital, 3:205). The capitalist general interest pursued by the bourgeois state applies not only to the national level, but also to the international level. Many Marxist currents to this very day analyze international politics more or less within the tradition of Lenin’s theory of imperialism. We will now briefly deal with this theory.

At the beginning of the twentieth century, various Marxist authors attempted to examine the extent to which imperialist behavior by capitalist states was rooted in structural changes of capitalism within these countries (Hilferding, 1910; Luxemburg, 1913; Kautsky, 1914; Lenin, 1917). Lenin’s contribution was the most influential. His analysis was largely borrowed from the left-liberal English author Hobson (1902) and presented in a Marxist guise.70 Lenin regarded the essential structural change of contemporary capitalism as being the transition from “competitive capitalism” to “monopoly capitalism.” To summarize briefly, Lenin argues that an increasing number of industrial branches are dominated by a few firms, whereby the largest industrial firms merge with the large banks. As a result, the economy is dominated by a handful of monopolists and financial magnates, who also exercise a decisive influence upon the state. Since the monopolies can no longer find sufficient possibilities for valorization within their own countries, they are confronted with the necessity of exporting not just commodities but also capital to other countries. These capital exports are made possible and secured through imperialist policies. As a result of the export of capital, the bourgeoisie of the imperialist countries appropriates a large portion of the surplus value of other countries, whereby imperialist capitalism obtains a “parasitic” character. Since monopoly capitalism is losing vitality (as well as inhibiting technical progress), it has a tendency to “stagnation and decay.” Imperialist capitalism is thus a “decaying” and “dying” capitalism.

Since imperialist expansion is promoted mainly by the developed capitalist countries, a struggle for the division of the world results. Lenin regarded the First World War as an inevitable result of this struggle. Lenin explained that imperialist policies and ultimately the war were largely accepted by the working class in many countries by asserting that the upper layer of the working class (the “labor aristocracy”) was “corrupted” by sharing in the fruits of imperialism.
In this view of things, imperialism is not just a type of politics that could in principle be completely different, but rather an economic necessity that results from the transition from competitive capitalism to monopoly capitalism. Lenin thus conceived of imperialism as a necessary stage in the development of capitalism, as the final stage of monopoly capitalism. Since there could be no further stage of development after monopoly capitalism, Lenin regards imperialism as the highest and final stage of capitalism, which can only end in war or revolution.\textsuperscript{71}

In Lenin’s theory of imperialism, there are a number of extremely problematic points. First of all is the alleged transition from competitive to monopoly capitalism. The growth of individual capitals and an increasingly smaller number of capitals dominating a single branch (trends, by the way, that are not at all universally dominant and that sometimes even reverse) led Lenin to conclude a change in the capitalist mode of socialization: it was no longer value, but rather the will of the monopolists that was supposedly dominating the economy. More or less successful attempts at planning by individual capitals or collusion between cartels are mistaken for a fundamental change to the mode of socialization mediated by value. Following this conception, the state is reduced to a mere instrument of these monopolists, and imperialism is conceived of as the direct implementation of the interests of individual capitalists. Finally, the characterization of imperialism as “parasitic” is problematic not only due to the moralistic undertone, but also because it is not readily apparent why the exploitation of a foreign working class should be any worse than the exploitation of the domestic working class.\textsuperscript{72} What Lenin intended as a continuation of Marx’s analysis ultimately has almost nothing to do with Marx’s critique of political economy.

Not only theoretically, but also empirically, Lenin’s theory of imperialism stands on shaky ground: the export of capital supposedly necessitated by imperialist policies did in fact occur, but the greater portion of this capital export went not to colonies and dependent territories but to other developed capitalist countries that also pursued imperialist policies. That means that the cause of the capital export could not solely lie in the absence of profitability in the capitalist centers, since that would
mean there couldn’t have been any capital exported to other centers. Besides, such capital export was not secured by the imperialist policies of the home country, since such policies aimed at the rule of foreign territories outside of the capitalist centers. And finally, whoever still wishes to adhere to Lenin’s theory is confronted by the problem that for the United States—regarded as the most important imperialist power—the import of capital, rather than the export of capital, is the decisive factor.

However, attempts exist to formulate a theory of imperialism outside of Lenin’s framework, but the concept of imperialism is understood rather broadly. If one describes the state assertion of the capitalist general interest at an international level by means of economic, political, or military pressure against other countries as *imperialism*, then imperialism is no longer a particular stage in the development of capitalism; rather, every bourgeois state is imperialist within the limits of possibility, but then the term “imperialism” really doesn’t say very much. The question of which goals are pursued by imperialist policies and what the driving factors are cannot be answered at such a general level. In any case, it can’t be a simple mechanism such as securing capital exports.

At the international level, a multiplicity of states of widely varying economic, political, and military strength and with completely different interests face one another. Between them, there exist disparate constellations of dependency and alliance, as well as antagonisms. The opportunity for action of each state is limited by the actions of all other states. In this competition between states, every state attempts to win and maintain opportunities for itself. An independent terrain of conflicts for power and influence between states is constituted. This terrain is not limited to the direct implementation of the economic interests of individual fractions of capital (although this also occurs). Upon this terrain, the primary concern is the organization of an international “order” in the trade, currency, legal, and military-political sectors.

Alongside specific interests resulting from their particular situations, states also have a common interest in the existence of a minimum of international order, since only under somewhat stable and calculable economic and political relations can a successful accumulation of capital occur. The concrete organization of this order (concerning the degree of free
trade or protectionism, the question of which currency plays the role of global money, arms limitation) brings different advantages and disadvantages for each state, which leads to different alliances that are in no way free of contradiction and are of limited duration.73

Finally, for the developed capitalist countries, the majority of which are poor in natural resources, a decisive point is the secure provision of raw materials and fuels. However, the point is not the conquest of corresponding territories so much as the “organization” of trade and its conditions: calculable extraction and secure transportation, the mode of price formation, and the currency in which trade is conducted.

The existence of a common interest in this order does not yet say anything concerning how it is achieved and what dimensions it takes. The readiness for cooperation is distributed differently between strong and weak states: for strong states, a “unilateral” approach (that is to say, the assertion of interests without considering the interests of others) is potentially a realistic perspective, whereas the weaker countries usually tend toward a “multilateral” approach (more or less cooperative behavior) and possibly even call for a binding international legal order. Usually both approaches are pursued, and both are used by states to advance their own interests.

The relations between states are not static; they exist against a background of a developing capitalism that constantly restructures the technical conditions of the production process, the organization of enterprises, and the international linkages between them. The world market is not just a precondition, but the constantly re-created result of the capitalist mode of production, so that the conditions for the opportunities for action by states are set again and again.

In the history of capitalism, both within individual countries as well as for the capitalist world system as a whole, distinctions can be made between structurally different periods. Marx attempted to analyze the fundamental commonalities between these periods that make it possible for one to speak of capitalism (see section 2.1). Periodization thus applies to a more concrete level of analysis than Marx’s Capital. However, such a periodization should not be mistaken (as frequently happened in the history of the workers’ movement) for an inevitable development toward
a final end—whether a “highest” stage of capitalism or even a “necessary” transition to socialism or communism.

On the other hand, caution is called for when the assertion is made that “now” it is a matter of a completely new, completely different capitalism. The phenomena that have been discussed in the last few years under the catchword “globalization” do not constitute a complete break in the development of capitalism; rather, they are merely the most recent phase in the crisis-prone implementation of the capital relation on the world market and the accompanying profound transformations in the social and political relations of individual countries.
Marx’s political aim was to overcome capitalism. A socialist or communist society (Marx and Engels used these terms interchangeably in the 1860s), in which private property in the means of production is abolished and production is therefore no longer carried out with the goal of profit maximization, was to take capitalism’s place. Marx did not draft an extensive concept for such a society, so that even today many readers of *Capital* are surprised when they find out that it does not contain even a small chapter about communism. However, at various points (both in *Capital* as well as in earlier writings) Marx attempted to draw conclusions from his analysis of capitalism concerning general determinations of communism. Since such conclusions depend upon the respective level of analysis, there are widely varying pronouncements that do not, however, add up to a unified conception.

There are two widespread complexes of conceptions regarding what constitutes communism in Marx’s sense. However, neither has much to do with the critique of political economy outlined in the preceding chapters.

*Communism as an ideal.* Here it is assumed that communism means a society as it *should* be for ethical reasons: people should not exploit
and oppress other people; they should not seek to gain material advantage, but rather show solidarity and helpfulness, etc. In Marx’s early writings, one finds a few pronouncements that can be interpreted in this direction. Against such a conception, it is often objected that “humans” are not as good as communism requires, that they always seek personal advantage and that communism therefore cannot function. On the other hand, people who are ethically or religiously motivated find a point of contact here, since Marx’s ostensible ethics seem to be strongly compatible with Christian ethics, for example. Both sides do not consider the fact that in Capital, Marx does not criticize capitalism for moral reasons (see section 2.2). Rather, in the course of his analysis, he demonstrates that moral conceptions are socially produced (see section 4.3). It thus follows that morals only exist as the morals of a particular society, but not as a universal morality one can measure individual societies against.

Communism as the nationalization of the means of production. The abolition of private property in the means of production is here equated with nationalization and state planning of the economy. Against this, the objection is raised that state planning is far too cumbersome and slow and includes a tendency toward authoritarian rule. Often, the “really existing socialism” of the Soviet Union is regarded as a more or less direct implementation of this conception of communism. The collapse of the Soviet Union is then taken as an obvious proof for the inevitable failure of communism. One finds demands for the nationalization of production both in the Communist Manifesto as well as Engels’s Anti-Dühring—but only as a first measure and never as a characterization of communism. Rather, the means of production should pass into the hands of society and the state ultimately “dies out” (MECW, 25:268).

In the few fundamental observations concerning communism that Marx makes on the basis of the critique of political economy, two things are clear. First, that communist society is no longer based upon exchange. Both the expenditure of labor-power in production as well as the distribution of products (first in their use as means of production and subsistence, then as the distribution of consumption goods among the individual members of society) occur in a manner consciously and
methodically regulated by society—not by the market or the state. Not only capital (self-valorizing value), but also the commodity and money no longer exist. **Second**, Marx is not only concerned with a distribution that is quantitatively different from that under capitalism (this question of distribution was emphasized in traditional Marxism), but primarily with the **emancipation** from a social nexus that takes on a life of its own and imposes itself upon individuals as an anonymous compulsion. Not only the capital relation as a specific relation of exploitation that generates bad and insecure working and living conditions for the majority of the population should be overcome; the fetishism that “attaches” to the products of labor as soon as they are produced as commodities should also be abolished. Social emancipation, the liberation from self-produced and therefore gratuitous constraints, is only possible when the social relations that generate the various forms of fetishism have disappeared. Only then can the members of society truly regulate and organize their social affairs **themselves** as an “association of free men” (*Capital*, 1:171). Marx is concerned with this comprehensive emancipation, and not merely with the question of distribution.

In contrast, it was a central tenet of traditional worldview Marxism and Marxism-Leninism that socialism or communism would lead to another mode of distribution that would offer individuals a foundation for other and better possibilities for development. According to this distribution-centric conception, an authoritarian welfare state that retains certain structures of the market economy can be regarded as socialism or communism. The “really existing socialism” in Russia, Eastern Europe, and China moved exactly in this direction: the party elite occupied positions of state power and steered the economy in the direction of the greatest possible increase of material output, a somewhat egalitarian distribution of income as well as the greatest possible social security. In the really existing socialist welfare state, the policies of the ruling party were not just imposed in an authoritarian manner against a political opposition striving for the reintroduction of capitalism. The majority of the population also had no actual influence; it was a more or less well taken care of but passive **object** of the party’s policies. Open discussion could occur only in a very limited way, if at all. The ruling “Communist” parties
in the “socialist” countries also did not allow their monopoly of power to be questioned by other communist forces. Society here did not regulate the social process, the party did. Clear-sightedly, Rosa Luxemburg criticized such tendencies early on. In her uncompleted text *The Russian Revolution* she writes:

Without general elections, without unrestricted freedom of press and assembly, without a free struggle of opinion, life dies out in every public institution, becomes a mere semblance of life, in which only the bureaucracy remains as the active element. Public life gradually falls asleep, a few dozen party leaders of inexhaustible energy and boundless experience direct and rule. Among them, in reality only a dozen outstanding heads do the leading and an elite of the working class is invited from time to time to meetings where they are to applaud the speeches of the leaders, and to approve proposed resolutions unanimously—at bottom, then, a clique affair. (*The Rosa Luxemburg Reader*, Monthly Review Press, 2004, 307)

The state in really existing socialism was primarily an instrument for securing the party’s rule over society. The “dying out of the state” was postponed to a distant future. However, for Marx’s conception of communism, it is precisely this point that is of decisive importance: the state, whether bourgeois or “socialist,” constitutes an independent force standing above society that organizes (to a certain extent) and imposes (by force if necessary) a specific form of reproduction. Against this, the “association of free men,” Marx’s characterization of communism, regulates its affairs without resort to such an external, independent force; as long as such a force exists, one cannot speak of a “association of free men.”

That one can only speak of communism when not only the commodity, money, and capital have been abolished, but the state as well, does not mean that such a society would have no rules. The members of such a society would have to regulate their social life, organize production in individual workplaces, coordinate between workplaces, harmonize their different interests as producers and consumers, find ways of dealing with minority positions, and for a long time will still have to deal with different
forms of gender and racial discrimination—such discrimination would not automatically disappear once capitalist exploitation ends.

The enormous effort of coordination that a communist society would have to perform, coordination that occurs today through the market, should not be underestimated in any case, nor should differences of interest and conflicts, as well as the danger of coordinating instances taking on a life of their own and becoming a state structure. When Engels writes in *Anti-Dühring* that "the government of persons is replaced by the administration of things" (MECW, 25:268), this is correct, but one should also add that the administration of things also contains a potential for power that can always lead to the domination of people.

Despite all these difficulties, there is still no immediately apparent argument as to why a communist society should be impossible in principle. However, communism—if it is not to be a "crude" communism (MECW, 3:296) that merely manages scarcity—is tied to certain economic and social preconditions. Marx emphasizes the massive development of productivity on the basis of science and technology, as well as the comprehensive development of the abilities of the workers as essential preconditions for the transition to a communist society (*Capital*, 1:616-21, 635, 637-38, 739; 3:958-59), even if both only occur in capitalism upon a narrow foundation, limited by the goal of profit maximization.

Two things are clear in connection with Marx's considerations. First, it is not sufficient for the transition to a communist society to conquer and defend state power during a weak phase of bourgeois rule, like in Russia in 1917. Without the corresponding social and economic preconditions, a socialist revolution might be successful as a project to maintain the power of a political party, but not as a project of social emancipation. Second, a communist society requires a particular development to transform the preconditions created within capitalism. Not until "a higher phase of communist society," where "the productive forces have also increased with the all-around development of the individual, and all the springs of co-operative wealth flow more abundantly" can "from each according to his abilities, to each according to his needs" apply (MECW, 24:87).

Even when a communist society can only be achieved with difficulty—in light of the social devastation wrought by global capitalism, by crises
and unemployment in the developed countries as well as in the countries of the so-called Third World while there exists at the same time a historically unprecedented level of material wealth; in light of the destruction of the natural foundations of life caused by capitalist production, no longer occurring locally but affecting the planet as a whole (clearly visible in climate change); in light of constant wars that also emanate from or are promoted by "democratic" bourgeois states—in light of all that, there are enough good reasons to abolish capitalism and replace it with an "association of free men."
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Notes

1. A detailed commentary on the first two chapters of *Capital* amended by commentaries on further Marxian texts dealing with value theory can be found in Heinrich (2008). A continuation of this commentary (covering chapters 3–7) will appear in 2012.


3. Marx used *verrückt* and the derived noun *Verrücktheit*. *Verrückt* means mad, irrational but also that something is displaced.

4. In the history of worldview Marxism, the epistemological side of Marx’s argumentation was mostly neglected (as was the case with the bourgeois critique of Marx). Western Marxism raised epistemological questions, but the connection with Marx’s critique of political economy was weak. Only with the renewed discussion of Marx in the 1960s and 1970s was the epistemological aspect placed in the foreground against an economically foreshortened reception of Marx’s critique of political economy (which only wanted to see in Marx the “better” economist).

5. The translation says “dialectical inversion” but in the German original “dialectic” is not used.

6. Change of quantity into quality: a quantity increases until its quality is ultimately changed. If water is heated, then its temperature increases, but it re-
mains fluid, until it finally starts to steam at 100 degrees Celsius. *Negation of the negation*: in development, the negation of an original state is followed by a further negation. A seed grows into a plant, the plant is the “negation” of the seed; if the plant grows fruit and leaves behind a greater number of seeds, this is the negation of the plant, and therefore a “negation of the negation”; this does not, however, lead back to the point of departure, but rather reproduces it on a higher level—the seeds have multiplied.

7. He writes in the *Anti-Dühring*: “It is obvious that I do not say anything concerning the *particular* process of development of, for example, a grain of barley from germination to the death of the fruit-bearing plant, if I say it is a negation of the negation” (MECW, 25:131).

8. Nowadays a variant of the utility theory of value is dominant again within economics, the so-called theory of marginal utility.

9. In the third volume of Capital, Marx demonstrates that the actual exchange relationships in no way correspond to the amount of labor expended in production (see chapter 7).

10. Wolfgang Fritz Haug, in his *Vorlesungen zur Einführung ins Kapital*, declares that Marx had traced abstract labor back to a “basis in nature” (Haug, 1989, 121). In my book *Die Wissenschaft vom Wert*, I have attempted to show that this is more than simply an unfortunate formulation on the part of Marx. In Marx’s critique of political economy, we find on the one hand a scientific revolution, a break with the theoretical field of classical political economy, but on the other hand, Marx’s argumentation adheres from time to time to the remnants of these conceptions which he actually transcended. Such ambivalences in Marx’s argumentation can only be dealt with at the margins of an introductory work such as this one.

11. As an intended proof of the supposition that Marx sees value already established through production and before the exchange act, he is often quoted to the effect that “it is not the exchange of commodities which regulates the magnitude of their values, but rather the reverse, the magnitude of the value of commodities which regulates the proportion in which they exchange” (*Capital*, 1:156). This overlooks that this deals with a relation of regulation and not a temporal relation (first there’s value, then exchange occurs). As far as the temporal connection is concerned, Marx clearly states: “It is only by being exchanged that the products of labour acquire a socially uniform objectivity as values [Wertgegenständlichkeit], which is distinct from their sensuously varied objectivity as articles of utility” (*Capital*, 1:166). For the producers of commodities, the objectivity of value plays a decisive role, which is why “their character as values has already to be taken into consideration during production” (*Capital*, 1:166, emphasis mine). The fact that value is “taken into consideration,” the future value of a commodity estimated by the producers, is something different than if this value were something preexisting.
12. The analysis of the value form occurs in the comprehensive third section of the first chapter of Capital.

13. Many introductions to Capital also understand the analysis of the form of value in such an abstract-historical way and therefore miss the point of Marx's argumentation. Thus does Haug (1989) contrast the "real historical development" to the analysis of the form of value, "which isolates the laws of development of the value form in laboratory-like pure culture." Haug refers approvingly to Engels's formula that the logical depiction of categories is merely the historical development, stripped of diverting chance occurrences (see section 2.1 regarding the problem of Engels's reading). This point, among others, was the subject of a debate between Haug and me that occurred in the pages of the journal Das Argument. See Haug (2003a, 2003b) and Heinrich (2003; 2004).

14. Only after money is scientifically developed as a necessary (not consciously introduced) result of the actions of the commodity owners can one consider the historical process from which this result emerged. After developing the category of money, Marx gives a very short and abstract outline of the historical emergence of money (Capital, 1:181-83).

15. Above all, Hans Georg Backhaus in the 1970s pointed out the "monetary" character of Marx's theory of value and thus had a decisive influence upon the "new reading of Marx" referred to in section 1.3 above.

16. In A Contribution to the Critique of Political Economy, Marx describes money as the "direct embodiment" of abstract labor (MECW, 29:297).

17. The term "ideology," which Marx uses rarely in Capital, is often understood as a sort of "false consciousness" to which fetishism also belongs. A critical discussion of the relationship between ideology and fetishism can be found in Dimoulis/Milios (1999).

18. In section 1.3 we noted that the young Marx understood capitalism as the "alienation" from "human species being." Marx's analysis of the fetish character of commodities was understood by some authors as a continuation of this theory of alienation. However, a close reading yields that Marx does not refer to any sort of "human essence" when dealing with the fetish character of commodities.

19. This conception belongs to the standard repertoire of traditional Marxism. It was disseminated by Ernest Mandel, for example, along with a historical reading of Capital in many introductory texts (see Mandel's Marxist Economic Theory).

20. The connection between "simple circulation" and capital is depicted by Marx in the preliminary works that led to Capital—in the Grundrisse and the so-called Urtext of A Contribution to the Critique of Political Economy—but not in Capital. In Capital, Marx begins the fourth chapter with the analysis of the formula M—C—M'. With this omission, Marx himself abetted the interpretations mentioned above that contrast a market economy and capital as separate things.
21. Marx’s expression “ökonomische Charaktermasken der Personen” is translated as “characters who appear on the economic stage,” so the term “character mask,” which is often used in the German discussion, does not appear in the English translation of Capital.

22. When he introduces capital in the second part of Capital, vol. 1, Marx avoids the term “class.” Only in vol. 2 does he stress explicitly that the “class relation” is already presupposed, when capitalist and laborer meet at the market for buying and selling labor-power (Capital, 2:115).

23. For example, Ulrich Beck in his book Risk Society: Toward a New Modernity.

24. Marx speaks in Capital of the value of labor-power in the singular, as if all labor-power had the same value. He does this because he initially wished to examine fundamental structures—how surplus value is possible despite equivalent exchange—and for that purpose differences in the value of labor-power do not play a role. Marx sees the foundation of such differences primarily in different costs of qualification, whereby the labor expenditure of a skilled labor force constitutes a higher magnitude of value. However, we can also conclude from Marx’s emphasis upon the “historical and moral element” of the value of labor-power that this value is determined differently, not just in different countries, but also within the same country for different sections of the working class (on the basis of different organization, fighting strength, tradition, etc.), and that asymmetrical gender relations and racist discrimination lead to differences in the value of labor-power, since specific claims cannot be asserted.

25. As discussed in the previous chapter, only in the act of exchange is it first possible to determine how large the sum of value created during a particular workday actually is. If the commodity can be sold at all, then a particular sum of value, big or small, is created. The following explanation refers to this sum of value. If I write that the worker works for so many hours and therefore creates so much value, it is not a matter of falling back into a substantialist, premonetary theory of value, but merely a simplified figure of speech.

26. Such a demand was formulated, for example, by Ferdinand Lassalle (1825–1864) and his followers, and was sharply criticized by Marx.

27. Marx writes of a fetish only with regard to the commodity, money, and capital: a particular social relationship appears as the property of a thing. (On the fetish character of capital, see section 5.3 below.) He writes of mystification when referring to the fact that a particular state of affairs necessarily assumes an inverted phenomenal appearance: with the wage, the payment of the value of labor-power appears as the payment of the value of labor.

28. In the Introduction of 1857, Marx notes that an apparently simple concept like “labor,” which appears to express a state of affairs existing in every society, is first made possible and “practically real” in capitalist society: only in capitalism have various activities become separated from people, social context, etc.; only now is there no single dominant activity and all activity is a means of
valorization for capital and a means of survival for the wage laborer; only now can one speak rather generally of "labor."

29. However, the "life span" of a machine depends only in part upon its physical wear-and-tear. If new and improved machines come onto the market, then the machine's economic life span is considerably shorter than its physical life span. Computers, for example, are usually discarded not because they no longer work, but because much better ones are available.

30. Above we noted that the value of labor-power is not transferred to the product, but that labor expenditure creates new value. This new value is mathematically expressed with the help of \( v \) and \( s \).

31. The increasing importance of knowledge and science for capitalist production is not a new phenomenon the way fashionable talk of a transition from "industrial society to a knowledge society" might suggest. And it is certainly not the case—as is sometimes alleged—that it calls the capitalist form-determination of production into question.

32. This enormous increase is assumed in order to simplify the following calculations. If one compares different eras over a distance of decades, then it is quite possible that productivity doubles.

33. A decrease in labor-time usually leads to an intensification of labor (a greater value product is created in the same amount of time), which stands in good stead for an increase in surplus value. But this is not considered in our example.

34. With the organic composition of capital, one runs into problems when addressing the average composition of total capital in a society, since technical changes in one branch change the value of its products and leads to a change of the value-composition in all other branches that use this product. This means that changes in the organic composition can no longer be sharply distinguished from changes in value-composition.

35. Marx's terminology deviates from that used today: "concentration" usually describes a process that Marx would have understood as "centralization," the reduction of the number of individual capitals.

36. Ben Fowkes translated "a dialectical inversion" in the Penguin edition, but in the German original "dialectical" is not used.

37. Transport is not counted among the functions of pure merchant capital, since it constitutes a sphere of industrial capital. We are dealing here with conceptual distinctions; in reality, it may very well be the case that a particular capital combines the function of transportation and the function of sale, meaning a portion of capital is industrial capital and therefore creates value and surplus value, whereas another portion is merchant capital that produces neither value nor surplus value.

38. The question as to the origin of the surplus has given rise to widely diverging notions, both within classical political economy and contemporary economic theory.

39. To simplify our calculations, we will disregard fixed capital and assume a turnover time of one year.
40. Marx's strong interest in such a quantitative method of calculation is an expression of the ambivalences addressed above (sec. 3.3, n. 10). In many places, he remains trapped within the pre-monetary value theory of classical political economy that he had transcended in other places. If the value of a commodity is determined independent of exchange (which was also the dominant conception in traditional Marxism), then there is in fact a "transformation problem."

41. To that extent the competition process outlined above does not bring about a temporal transition from a system of value to a system of production prices (since there is no capitalism where commodities exchange at their values), but rather brings the transition from a price system with unequal rates of profit to a price system with a (tendential) equal rate of profit. Through productivity increases, changes in demand, etc., there are permanent shifts in prices and unequal profit rates in individual spheres, which is why the equalization process mediated by competition permanently takes place.

42. A detailed discussion of positions that defend Marx's "law," as well as a discussion of further aspects of the "law," can be found in my book Die Wissenschaft vom Wert.

43. Under exceptional circumstances, such as during an acute crisis, capitalists request additional credit, not to make additional profit, but to meet their outstanding payment obligations and avoid bankruptcy. In such situations, the rate of interest can lie above the average rate of profit.

44. In fact, at any given time we find not one rate of interest, but several different interest rates, depending upon the length of the credit period. These interest rates tend to lie in a certain range, for example, between 4 percent and 6 percent. If one speaks of interest rates rising or falling, then that means that the entire range shifts and becomes eventually narrower or broader.

45. The fundamental concepts can only be considered here in an introductory manner. A comprehensive introduction can be found in Krätke (1995) as well as Itoh/Lapavitsas (1999).

46. Further sources of income for the banks are fees (for keeping an account, for example) and commissions (for the brokerage of sales of stocks and bonds).

47. Usually, the bank or credit card issuer only guarantees up to a particular limit; however, the seller can usually verify the validity of a check or credit card with a simple inquiry.

48. The banks merely play the role of broker, and obtain a commission.

49. I use "capital market" here as an umbrella term for securities and stock markets. Often the term "financial market" is used, and in the nineteenth and early twentieth century, "bourse" was common. Sometimes a distinction is made between the capital market as a market for long-term loans and the money market as a market for short-term loans.

50. The extent to which the market value rises or falls depends furthermore upon the maturity of the commercial paper (the period of time before repayment) as well as the creditworthiness of the debtor (the estimation of his future ability to pay).
51. Not only are stocks and fixed-interest securities traded upon capital markets, but also a number of instruments that are merely claims upon stocks and bonds, strictly speaking, claims to claims. The "innovations" that have occurred in the last few decades on the international financial markets (above all, so-called derivatives) consist primarily in the constant invention of new forms of tradable claims, that is, new forms of fictitious capital.

52. A few years ago, the car manufacturer BMW increased its production plans in the middle of a crisis. Responding to questions by journalists, the then-chairman of the company explained that he was well aware that there were too many cars on the market, but that too few of them were BMWs.

53. Those arguing this perspective leaned for support upon Marx and Engels's 1845-46 manuscript *The Germany Ideology*, which shared in this point this simple view of the world: "The ideas of the ruling class are in every epoch the ruling ideas: i.e. the class which is the ruling material force of society, is at the same time its ruling intellectual force" (MECW, 5:59).

54. It is not necessary to deal here with the question of what the amount of ground rent depends upon in each individual case. Let us only say so much with regard to the "value of land": insofar as we are dealing with virgin soil, the "value of land" is just as "imaginary" an expression as the "value of labor" (see section 4.5). This "value" depends upon the expected amount of ground rent. The price of land is as high as the sum of capital yielded by interest at a normal rate when the amount is the same as ground rent. The "value of land" is thus calculated in a manner similar to that of the "value" of fictitious capital.

55. The sum of ground-rent payments constitutes a deduction from the total social surplus value. As a result of this deduction, the mass of total social profit is smaller than it would have been without this deduction. The average profit always bases itself upon this smaller total social mass of profit; it is therefore divided only into interest and enterprise of profit.

56. In the case of independent handiwork, this separation is abolished, but seems to be an accidental coincidence of what are actually separate things.

57. The terms *personification* and *personalization* need to be precisely distinguished. Personification can refer to the fact that a person merely obeys the logic of a thing, such as the capitalist being a personification of capital (in German: *Personifikation*). Personification can also refer to a thing having properties of a person attributed to it, such as capital appearing to be a self-active subject (in German: *Personifizierung*). Personalization is the reduction of social structures to the conscious activity of individuals.

58. The fact that concomitant with the rise of "race theories" in the late nineteenth century anti-Semitism was endowed with a "race-theoretical" foundation appears less important as a characteristic of modern anti-Semitism, which owes more to the devout faith in science of the nineteenth century, as anti-Semitism was given a scientific guise. Modern anti-Semitism was operative before the rise of "race theories" as well as after their discrediting.
59. Anti-Semitism in this manifestation builds upon a truncated and superficial critique of capitalism. Not every truncated critique of capitalism, which, for example, sees the financial markets as the sole reason for the ills of capitalism, is already anti-Semitic, but such superficial critiques offer easy connecting points for anti-Semitic stereotypes.

60. For that reason, it is quite plausible to address the psychological structures generated by bourgeois society, if one wishes to obtain more exact knowledge concerning the spread of anti-Semitism. More cannot be said here concerning the debate initiated in the 1930s by Horkheimer and Adorno as well as Wilhelm Reich.

61. Moishe Postone succumbs to such a hasty certainty in his essay "Anti-Semitism and National Socialism": he suggests a direct and inevitable path from the commodity fetish to Auschwitz.

62. From the cornucopia of contributions, we shall name only a few: Lenin’s *State and Revolution*, Evgeny Pashukanis’s *The General Theory of Law and Marxism*, Gramsci’s *Prison Notebooks*, Althusser’s *Ideology and Ideological State Apparatuses*, Johannes Agnoli’s *Der Staat des Kapitals*, Nicos Poulantzas’s *State, Power, Socialism*, and Heide Gerstenberger’s *Impersonal Power*.

63. In the writings of the young Marx from the early 1840s, one also encounters a critique of the state that contrasts norm and reality. As a result of the inadequacy of such a critique of the state, Marx began his engagement with the critique of political economy. These early works are thus hardly fruitful for a critique of the state on the basis of the critique of political economy.

64. Marx emphasizes this point in *Capital*: “The specific economic form, in which unpaid surplus-labour is pumped out of the direct producers, determines the relationship of domination and servitude, as it grows directly out of production itself and reacts back on it in turn as a determinant. On this is based the entire configuration of the economic community arising from the actual relations of production, and hence also its specific political form” (*Capital*, 3:927).

65. Jeremy Bentham (1748–1832) was an English philosopher who advocated an ethical system based upon utilitarian principles.

66. Following Marx’s well-known formulation, one could say that this and subsequent statements only apply to the bourgeois state “in its ideal average.” Just as the depiction of the capitalist mode of production “in its ideal average” (*Capital*, 3:970) does not yield a complete analysis of capitalist society, the same applies to the state. The implementation of the complete legal and political equality of citizens (and especially of female citizens) was a process that lasted into the second half of the twentieth century in some states, and is still going on to some extent. Furthermore, as a result of global processes of migration, there live in the majority of states today not only legally equal citizens, but also a growing number of citizens of other states who enjoy considerably fewer, or as is the case with illegal immigrants, almost no rights.

67. This state of affairs, mentioned by Marx in passing, is one of the central themes of Michel Foucault’s *Discipline and Punish*. In this context, Foucault
criticizes the traditional conception of power as being an asset that various social classes can simply appropriate. Against this, Foucault advances a "microphysics of power" that pervades every individual in his or her internalized attitudes and behavior.

68. Since capital must constantly conquer new territories, private property relations must constantly be reestablished under new conditions, such as with the Internet, to take a contemporary example (see Nuss, 2002).

69. The existence of money is not based upon state actions; rather it is the commodity that necessitates money (see chapter 3). However, under normal capitalist conditions the state guarantees the value of the particular concrete manifestation of money through state institutions (in developed capitalism, usually a central bank, see chapter 8).

70. Lenin himself neither denied what he owed to Hobson nor the occasional character of his book. Only the inventors of "Leninism" transformed this small pamphlet into an ingenious classical work of Marxism.

71. Since "dying" capitalism obviously survived the First World War (as well as the Second), the theory of "State Monopoly Capitalism" was developed within the framework of Marxism-Leninism. "State Monopoly Capitalism" was regarded as the very last phase of the final stage of imperialism: the fusion of the state apparatuses with the monopolies was keeping "dying" capitalism on life support for a little while longer.

72. For Hobson, from whom Lenin also took the characterization "parasitic," the use of this attribute made sense, because Hobson wants to confront a sound, welfare capitalism (which he supports) with an unsound imperialism (which he criticizes).

73. The notion formulated by Hardt and Negri that the imperialism of nation-states (which they uncritically conceive of in terms of Lenin's theory of imperialism) has been superseded by an "empire" without a territorial center of power is a grandiose idealization of this international order.

74. Corruption and personal enrichment were in no way rare occurrences, but this says just as little about the mode of functioning of the really existing social state as corresponding phenomena by bourgeois politicians does about the bourgeois state.
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